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ECONOMIC INTELLIGENCE WEEKLY REVIEW

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Articles

KOREA: SOUTH PULLING AHEAD IN ECONOMIC RACE WITH NORTH*

Over the past decade the export-oriented South Korean economy has clearly outpaced the less dynamic North Korean economy in raising labor productivity, absorbing modern technology, and building up international financial strength. While North Korea's real GNP was doubling between 1965 and 1976, real GNP in the South more than tripled. As a result, South Korea recently surpassed the North in per capita GNP, an advantage P'yongyang had held since partition in 1945. The North's total GNP of $10 billion is less than half the $22 billion of the South (in 1975 prices). More importantly, the economic gap in South Korea's favor will widen substantially over the next five years.

Comparative Economic Indicators

Item	Unit	1970		1976	
		North Korea	South Korea	North Korea [1]	South Korea
GNP	Billion 1975 US $	6.0	11.8	10.0	21.6
Population	Million persons (Midyear)	14.2	32.2	17.0	35.9
GNP per capita	1975 US $	425	365	590	600
Industrial output	Index: 1970=100	100	100	225	357
Production of:					
electricity	Billion kWh	16.5	9.2	22.0	23.1
coal	Million tons	27.5	12.4	40.0	16.4
crude steel	Million tons	2.2	0.5	2.75	2.7
fertilizer	Million tons (nutrient content)	0.3	0.6	0.6	0.8
cement	Million tons	4.0	5.8	5.0	11.9
textiles (excluding yarn)	Million square-meters	418	329	450	936
refined petroleum products	Million tons	0	9.0	1.0	17.8
Exports (f.o.b.)	Million US $	315	835	560	7,715
Imports (c.i.f.)	Million US $	395	1,984	820	8,774

[1] Preliminary estimate.

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Industry: The South's Biggest Edge

South Korea's economic surge over North Korea has been especially pronounced in the industrial sector. Industrial production has grown almost 25 percent annually since 1965, nearly double the rate of the North and perhaps the fastest in the world. Production has been geared to the export market, with clothing, footwear, and electronics the leading growth industries.

Heavy industry currently is receiving top priority and is gradually increasing its share of total output. South Korea has become an important shipbuilding nation and is making considerable progress in the steel, petrochemical, and fertilizer industries. A major effort to expand the machine-building sector is under way. This effort is featured by the construction of a huge 100-plant complex near Pusan, which is to produce $2 billion annually in industrial machinery, specialty steels, and industrial components. Because of its heavy dependence on imported petroleum, South Korea has also started an ambitious nuclear energy program.

A reconstruction of official North Korean statistics indicates that industrial production in the North grew about 13 percent annually between 1965 and 1976. Growth has been erratic, with zero or negative rates in four of the past 11 years. Heavy industry and mining continue to dominate the economy. North Korea produces more coal, iron ore, nonferrous metals, machine tools, and military hardware than does the South. It produces approximately the same amount of steel but a little less electric power. Other significant industries in the North include cement, fertilizer, and textiles; production in all these industries is well below output in the South. Heavy use of coal and hydroelectric resources has minimized the need to develop petroleum and related industries.

Why the South Has Outperformed the North

Many reasons may be cited for the South's edge in performance over the past decade. These include faster gains in labor productivity, a smaller defense burden, greater efficiency in the use of capital, and exposure to the discipline of international markets.

Labor Productivity

Labor productivity has grown much more rapidly in the South than in the North. That is, South Korea's labor force and bureaucracy now far exceed those of North Korea in technical competence. The North Korean educational system spends about as much time imparting the ideology of Kim Il-song as in instilling practical knowledge. In contrast, the economic planners and top businessmen in South Korea are well educated, many with advanced degrees from US universities. Moreover, South Korea has extensive training facilities for upgrading technical skills of a diligent labor force. Firms with more than 200 employees, for example, are required to have at least 15 percent of their employees in training programs.

Defense Burden

The North maintains a defense establishment roughly comparable in manpower and quantitatively superior in equipment to that of the South; yet the North has only half the population and less than half the GNP. During the past decade, North Korea has allocated an estimated 15 to 20 percent of its GNP annually to defense. The South has benefited from US security commitments and has allocated less than 5 percent of its GNP annually to defense during the past 10 years. Fully 12 percent of North Korea's males of military age (17 to 49) are in the regular armed service, a level exceeded only by Israel. An added drain on North Korean resources over the years has been a high-cost underground construction program designed to protect important industrial and military installations. P'yongyang's defense industry currently produces all but the most sophisticated weapons. The South is heavily dependent on imports for most of its military equipment.

Capital Efficiency

A higher return on industrial investment constitutes the third reason why the South has outdistanced the North in economic development. South Korea has rapidly increased its savings rate and has marshaled large sums for productive investments in industry. Its incremental capital-to-output ratio of about 2.2 has been among the lowest in the world. Large investments have been made in developing the economic infrastructure, particularly the transportation and electric power sectors. These investments have greatly facilitated the growth of both heavy and light manufacturing industries, especially those branches that are export oriented. In turn, rapidly increasing exports have enabled South Korea to import large amounts of modern machinery from Japan and the West and to maintain a high return on capital.

North Korea, in contrast, has had a much lower return on its capital investment. Although North Korea has generated high savings and investment rates—restraints on private consumption have enabled investment to equal roughly 30 percent of GNP—P'yongyang has not allocated these funds efficiently. A considerable portion of North Korean investment resources has gone into military construction and defense industries, which does not lead to self-sustaining growth. Equally important is the North Korean perception of foreign trade. P'yongyang prides itself on the extent of the country's self-sufficiency—from agriculture to machine tools to weapons. Such a policy can become expensive for a small country, since the gains from specialization and trade and from foreign technology are not fully realized.

The North Korean leadership has recognized its problems of insufficient return on investment and growing obsolescence of the industrial plant. In the early 1970s, P'yongyang contracted with Japan and Western Europe for considerable amounts of modern machinery, importing $2.5 billion worth of equipment between 1965 and 1976. P'yongyang's suspicious attitude toward foreign technological advice and its inability to sustain the inflow of equipment (because of financial difficulties) have greatly reduced the productivity of these

imports. South Korea, in contrast, imported more than $11 billion in capital equipment during the same period, along with the skills to operate and manage the equipment.

Trade Relations

South Korea's rapid export expansion is another key factor for its growing economic lead over the North. Through a well-orchestrated export drive, South Korea has boosted its foreign sales a remarkable 45 percent annually since 1970. This has helped Seoul obtain the foreign exchange necessary to finance the rising levels of capital imports essential to industrial development.

Just as important, South Korean businessmen have had to respond nimbly to the demands of the constantly changing international markets; their achievements have constituted one of the biggest success stories of the 1970s. The strength of the South's international positon was underscored last week when imports of 126 commodity sub-items, previously banned or subject to prior approval, were placed in the automatically approved category. Although South Korea has in the past run substantial current account deficits to import large amounts of capital goods, its current account has been in near balance in 1976 and 1977.

North Korea's export earnings, in contrast, have increased only 10 percent annually since 1970, not nearly fast enough to finance its capital goods imports.

North Korea's Debt Problem

North Korea's large foreign debt and continuing default have cut its access to further imports of advanced Western machinery and equipment. By yearend 1976, P'yongyang's hard currency debt had reached $1.4 billion, about five times annual hard currency exports of recent years. At least another $1 billion was owed to Communist creditors.

Largely because of the debt problem, but also because of prolonged drought, North Korea's economy stumbled badly in 1976. Cutbacks in imports of machinery and equipment, a shortage of hydroelectric power, and difficulties in reallocating resources caused industrial production to stagnate. Production of electric power, machine tools, cement, and textiles declined, while output of lead and zinc remained at 1975 levels.

Because of these setbacks, P'yongyang fell short of many of its Six-Year Plan (1971-76) industrial targets. Coal production, for example, amounted to only 40 million tons, 10 million tons below the minimum target. These economic difficulties have continued in 1977—a year in which Kim Il-Song had declared a "year of readjustment" before the launching of a seven-year plan, to start in 1978.

Outlook: Widening Gap is Likely

A more productive labor force and greater technological sophistication will favor South Korea in future economic development. Unless a major global recession or increased

protectionism in the developed world shrinks export markets, real GNP in the South is likely to grow 9 to 10 percent annually during the next five years. The maximum for the North is probably 6 percent. Barring large-scale war on the peninsula, South Korea should emerge in 1981 with an economy about three times the size of the North Korean economy and with per capita GNP of about $900 compared with $650 in the North (in 1975 prices). 25X1

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WEST GERMANY: SLOW EXPORT GROWTH CASTS SHADOW ON ECONOMY

Disappointing export growth largely explains West Germany's failure to reach its 1977 growth target. In early 1977, Bonn expected exports to increase 9 percent in constant prices and real GNP to rise 5 percent; actual gains will be about 4 percent and under 3 percent, respectively. In particular, exports to West European and Communist trading partners have fallen short of projections. Even so, the West Germans have been maintaining their share of world markets. Exports may increase a bit faster next year, although not enough to give the economy much of a lift.

West Germany: Share of Partner Country Merchandise Imports

Percent

	First Half 1976	First Half 1977
World [1]	**16.3**	**16.5**
EC	17.5	17.1
France	19.3	18.4
Netherlands	23.1	23.1
Belgium-Luxembourg	22.8	21.9
Italy	17.0	16.5
United Kingdom	8.7	9.3
Denmark	20.7	18.9
EFTA	24.1	24.0
Austria	40.5	40.7
Switzerland	28.3	27.4
Sweden	18.9	18.6
United States	4.8	4.6
Other developed countries	6.7	6.8
OPEC [1]	14.2	15.3
Iran	19.5	21.7
Non-OPEC Oil LDCs [1]	8.9	8.8
Communist countries [1]	24.3	25.3
USSR	19.5	18.8

[1] For certain areas, import data are not directly available. In these cases, the percentages presented are derived from data on exports of 20 non-Communist, non-OPEC reporting countries that accounted for over 70 percent of world exports in 1976; the percentage of West German exports thus overstates the West German position in the imports of these particular areas.

Performance to Date

We have progressively reduced our 1977 constant-price projection for West German exports of goods and services from an 8.5-percent increase to one of about 4 percent. Nearly all the slowdown can be traced to merchandise exports, which have registered quarter-to-quarter gains thus far this year of 9.1, 4.5, and 4.8 percent (annual rates). Simulations carried out on our model of the West German economy indicate that the slowdown in export growth accounts for about half of the drop in our projection of real GNP growth from 4.5 percent to under 3 percent.

The deceleration of West German export growth this year stems from a dramatic slowdown in the growth of purchases by West European countries and an actual drop in sales to Communist markets. Slower economic growth in the former countries and continuing hard currency deficits in the latter have been the main negative factors. The poor showing in exports to these two markets, which together absorb two-thirds of West German exports, outweighed faster growth of sales to non-European industrial nations, OPEC countries, and non-OPEC LDCs.

West Germany: Merchandise Exports, by Country

	Percent of Total (Jan-Aug 1977)	Percent Change [1]	
		Jan-Aug 1976 Over Jan-Aug 1975	Jan-Aug 1977 Over Jan-Aug 1976
World	**100.0**	**14.6**	**7.6**
EC	44.5	22.8	5.3
France	12.2	33.3	−0.6
Netherlands	10.0	10.5	13.0
Belgium-Luxembourg	7.8	20.9	6.7
Italy	7.0	22.2	1.1
United Kingdom	5.2	17.1	18.3
Denmark	2.2	47.7	−9.4
EFTA	15.7	13.0	8.9
Austria	5.1	23.2	16.5
Switzerland	4.5	17.2	8.9
Sweden	3.2	4.8	4.2
United States	6.3	14.3	22.7
Other developed countries	9.3	3.0	15.0
OPEC	9.1	17.9	27.8
Iran	2.4	11.5	17.6
Non-OPEC Oil LDCs	7.7	1.2	2.7
Communist countries	7.4	2.5	−8.2
USSR	2.3	−0.8	−10.4

[1] Based on current prices.

The slowdown has affected almost all categories of exports. In the first eight months of this year, foreign sales of raw materials and semifinished goods, which make up 26 percent of

merchandise exports, grew only about one-third as fast as in the same period a year earlier. The growth rate for machinery and equipment, the mainstay of West German exports, was less than half the comparable 1976 rate, largely reflecting the sluggish pace of investment spending worldwide.

West Germany: Merchandise Exports, by Commodity

	Percent of Total (Jan-Aug 1977)	Percent Change[1]	
		Jan-Aug 1976 Over Jan-Aug 1975	Jan-Aug 1977 Over Jan-Aug 1976
Total	**100.0**	**13.5**	**5.4**
Agriculture, forestry, and fisheries	1.1	18.2	1.4
Processed foods and tobacco	4.3	10.9	24.4
Mining	1.5	−12.8	−3.3
Raw materials and semifinished goods	25.6	14.3	4.8
Chemicals	13.2	27.7	4.2
Iron and steel products	6.1	−11.2	1.9
Nonferrous metals, paper, rubber, and petroleum products	6.3	23.4	10.6
Machinery and equipment	54.2	11.0	4.7
Machine-building	18.3	2.3	2.0
Road vehicles	14.9	20.2	5.3
Electronics, business machines, and data processing equipment	11.4	16.4	6.8
Iron, steel, and metalworking machines	5.5	14.4	13.6
Ships, aircraft, precision instruments, optics, and clocks	4.1	15.3	−0.2
Consumer goods	11.2	25.6	4.3
Synthetic fibers, textiles, clothing, shoes, and leather	7.1	27.0	2.0
Other	4.1	23.1	10.5
Other	2.1	19.7	13.6

[1] Based on constant prices.

On the whole, West Germany has been maintaining its share of major markets despite the export slowdown. Through mid-1977, losses of less than one percentage point in West European and non-OPEC LDC markets were almost matched by gains in the rest of the world. West Germany's share of Big Seven exports to the world continues to hover around 21 percent, as it has since 1970. We had expected that world trade would increase more than it has this year and that West German exports would grow a bit faster than the world total.

Thanks to relatively slow domestic inflation, West Germany's international competitiveness has suffered little. The price-adjusted exchange rate rose only about 5 percent between first quarter 1976 and third quarter 1977 despite a nearly 20-percent rise in the value of the Deutschemark vis-a-vis a weighted average of the exchange rates of 22 trading partners. In

dollar terms, West German export prices have risen roughly in tandem with those of major competitors and remain close to the Big Seven average.

Outlook

Based on an examination of current projections of world trade in 1978, real growth of West German exports of goods and services should accelerate slightly, to about 5 percent. The increase would result mainly from faster growth of imports elsewhere in the European Community, particularly France and the United Kingdom. We expect the stimulative measures recently announced by London to boost British aggregate demand substantially next year. In France, consumption would be stimulated should the leftist alliance gain power next March, and investment should pick up if the current government remains in office.

Last week, Bonn conceded that its former 6-percent target for real export growth in 1978 probably would not be realized. The Economics Ministry now has set its sights on 5-percent real export growth. We see the following trends:

- EFTA import growth is likely to slow again in 1978. In Austria, which accounts for a third of EFTA purchases from West Germany, the government intends to curtail import growth sharply to improve the balance of payments. Sweden also will be trying to hold down imports, and Switzerland will experience another sluggish economic year.

- West German shipments to non-European industrial countries also will slow, assuming US economic growth falls off as is widely anticipated.

- Imports next year by Communist and non-OPEC LDC customers are expected to pick up only moderately. Communist countries still will face hard currency constraints, and non-OPEC LDCs have persistent balance-of-payments problems.

- Given our projection of slower expansion of import demand in OPEC countries, West Germany would have to capture a larger share of the OPEC market for the seventh consecutive year just to keep its exports to the group growing at the present rate.

If West German export growth accelerates as little as we expect in 1978, the increase in real GNP growth will be correspondingly restrained. The economy has become increasingly dependent on exports; the ratio of exports to GNP has grown from 22 percent in 1970 to 28 percent in mid-1977. Bonn's announcement of revised economic forecasts last week included a drop in the real GNP projection for 1978—from 4½ percent to 3½ percent. The new, more guarded West German figures agree closely with our own. [redacted] 25X1

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PERU: FOREIGN PAYMENTS CRUNCH

After delaying the implementation of austerity measures, which in turn prolonged the conclusion of negotiations with the International Monetary Fund (IMF), Peru has finally obtained a $105 million standby loan. This delay, together with the government's failure to arrange timely commercial bank credits, has caused a drawdown of foreign reserves to the equivalent of only several days' imports. In addition to an initial installment of $12 million from the IMF, the government desperately needs an immediate $100 million to meet foreign obligations through January. We believe chances are fairly good that Peru can arrange a financial patchwork to cover immediate needs. For the remainder of 1978, Peru will have to live up to the stringent IMF loan conditions if it is to obtain the $300 million to $400 million needed from commercial banks.

Origin of the Problems

Peru's payments difficulties began in 1974-75 when rapidly rising imports pushed the financial gap (current account deficit plus debt amortization) to an average of $1.5 billion annually, six times the average of the previous five years. Imports soared as the ruling military junta launched massive economic development programs, foreign arms purchases, and

Peru: Foreign Financial Gap

	1973	1974	1975	1976 [1]	1977 [2]	1978 [2]
	Million US $					
Trade balance	**79**	**−403**	**−1,098**	**−740**	**−368**	**50**
Exports, f.o.b.	1,112	1,506	1,291	1,360	1,782	2,050
Imports, f.o.b.	1,033	1,909	2,389	2,100	2,150	2,000
Net services and transfers	−253	−323	−442	−422	−489	−533
Current account balance	**−174**	**−726**	**−1,540**	**−1,162**	**−857**	**−483**
Debt amortization	−339	−395	−339	−451	−391	−686
Financial gap	**−513**	**−1,121**	**−1,879**	**−1,613**	**−1,248**	**−1,169**
Medium- and long-term capital inflows	690	1,226	1,524	1,446	731	1,269
Direct investment	65	246	342	196	69	120
Project loans	625	980	972	670	650	749
Support loans	0	0	210	580	12	400
Net short-term capital [3]	−121	279	−114	34	317	0
Change in reserves	**56**	**384**	**−469**	**−133**	**−200**	**100**
Other financial items:						
External debt, yearend [4]	1,582	2,288	3,050	3,800	4,250	4,700
	Percent					
Debt service ratio	26.7	28.1	29.6	37.3	30.2	39.4

[1] Estimated.
[2] Projected.
[3] Included errors and omissions.
[4] Medium- and long-term, public and public-guaranteed.

subsidized food and fuel programs. Lima had little trouble financing the gap with project loans and direct investment in 1974, but the deficit grew even more rapidly in 1975. The government was forced to draw down foreign reserves by almost $470 million in 1975 despite $200 million in balance-of-payments support from international commercial banks.

Financial difficulties mounted in 1976, as Peru was forced to borrow $580 million in balance-of-payments support loans to close the $1.6 billion financial gap. Lima belatedly initiated an austerity program at midyear, including harsh import constraints and a 31-percent currency devaluation. Peru had substantial difficulty in acquiring part of the needed balance-of-payments support because of its delay in compensating the US owners of the nationalized Marcona iron mining properties. Although the IMF supplied $210 million in nonconditional loans in 1976, commercial banks demurred on commitments of $370 million until after the Marcona issue was settled in the fall.

Greater Difficulties in 1977

Even though the financial gap narrowed by one-fourth in 1977 to $1.2 billion, international commercial banks wearied of backsliding on austerity and increases in purchases. The banks demanded that Peru accept the conditions required for a $100 million IMF standby before they would ante up the additional $300 million needed to close the gap. Cabinet dissension and civil unrest contributed to a nine-month delay in agreeing to IMF austerity conditions. Without commercial bank support, Peru has been able to get by this year only by (a) arranging about $90 million in swaps with Venezuela and Brazil, (b) drawing on suppliers' credits, and (c) nearly depleting foreign reserves. Peru finally signed the $105 million IMF standby on 18 November. The standby provides an initial $12 million with remaining installments to be disbursed quarterly over the next two years.

High Stakes in January

Peru has more than $200 million in net foreign payments—including debt service obligations—due next month. Assuming that about $100 million in short-term obligations can be rolled over, Lima needs another $100 million to cover January's payments gap.

A large portion of debt service payments due in January is owed the Soviets for past arms purchases. Commercial banks and Western official sources will probably resist providing financial support to cover these obligations, which Peru probably will be able to postpone. Without immediate financial support or the rescheduling of its Western debts, Peru conceivably could be forced to mortgage or sell some of its $41 million in gold reserves. We believe that adoption of this alternative would undercut the political stability gained since July.

Lima is approaching various Western governments for a $100 million stopgap loan. If these are not forthcoming, we believe chances still are good that international commercial banks will provide the bridge to protect their exposure.

Outlook for the Rest of 1978

Peru needs $300 million to $400 million to close an expected $11.1 billion financial gap in 1978 and to make a start at rebuilding foreign reserves. If Peru complies with the terms of the IMF standby loan through March, a consortium of US banks may be willing to provide $250 million. Commercial banks in Canada, Western Europe, and Japan probably would follow with additional funds. 25X1

An Immediate Issue

Even more immediately, the 40,000 workers in the mining and metallurgy industries, which provide more than 50 percent of Peru's export earnings, are planning to strike this week. These workers are protesting the government's continued refusal to reinstate 400 dismissed workers and are seeking a substantial wage increase. This action could be the first of a new round of crippling labor stoppages resulting from economic complaints. 25X1

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CHINA: SNAGS IN INDUSTRIAL RECOVERY

The new PRC leadership seems increasingly disturbed by the slow pace and the marked imbalance in industry's recovery from the setbacks of 1976. Despite some bright spots in particular branches of industry, we see 1978 as still another year of readjustment, further upsetting the timetable of the Fifth Five-Year Plan (1976-80).

Sober Tone of Official Reporting

At a recent high-level gathering, planning chief Yu Chiu-li offered a remarkably subdued appraisal of the economic revival process that followed upon the overthrow last fall of Mao's widow and her leftist cohorts. While he cited a 12-percent increase in industrial output for the first nine months of this year over the corresponding period of 1976, Yu implicitly acknowledged that the increase was from a low base. As Yu put it, 1976 had been a year of "stagnation in industrial production."

Reporting from the provinces and by branch of industry seems to bear out Yu's assessment. Although several provinces have reported increases in industrial output ranging from 10 to 40 percent for the first eight months, these areas were mainly those hard hit by the political turmoil of the previous year. For the most part, reporting has been sparse and incomplete, with the majority of claims coming from provinces of minor industrial importance.

Official comment on performance in key sectors has been the most sobering of all. Eight-month statistics for a number of key industries—crude oil, natural gas, electric power, chemical fertilizer—show considerable increases over 1976. When viewed against increasing demand and the consequent need for large additions to capacity, however, a less glowing picture emerges. Most revealing is Yu's admission that "the development of the fuel and power industries and primary goods industries" is below expectations.

Our overall impression is that while considerable progress has been made in some important industrial branches and in rail transport, recovery has been spotty and slower than anticipated. We note a continuation of many of the same political problems and raw material shortages responsible for the "stagnation" of output last year.

Austerity Measures

The slow recovery in industrial output has complicated the government's task of improving the financial situation. State revenues, which come mostly from industrial profits and taxes, apparently have been falling short of plan, forcing Peking to curb spending in order to avoid a budget deficit—an anathema to the Chinese. Various steps are being taken, ranging from a crackdown on misuse of funds to restrictions on the flow of currency and credit.

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The severity of financial disarray was driven home in October with the issuance of a sweeping central directive aimed at warding off a budget deficit and dampening inflationary pressures. The directive called for tighter currency controls, greater emphasis on consumer savings, and the disgorging of hoarded supplies of raw materials and finished products. These actions became all the more necessary with the recent decision to grant long-postponed wage increases to a large number of urban workers.

Outlook Still Uncertain

Earlier this year, Peking's new leaders frankly admitted that they expected industrial recovery to be tough and protracted. As the year progressed, official commentary turned increasingly upbeat; a series of economic conferences were convened in Peking; and it appeared that a National People's Congress would soon be held to discuss and ratify the overdue draft of the five-year plan to carry the economy through 1980. Now, with the returns for the first three quarters in hand, Peking seems again pessimistic.

- The recovery of industry continues to be restrained by lingering confusion and uncertainty among provincial leaders, enterprise managers, and rank-and-file alike.
- The apparatus for statistical reporting, economic accounting, and planning and management is more disorganized than had been earlier realized.
- Economic planners seem unconvinced that even by the end of 1978 the economy will be capable of the kind of sustained growth earlier envisaged for 1978-80.

As a result, convocation of the Congress has been postponed to next spring, and little mention has been made of the status of the draft economic plan.

Despite the present difficulties, China's pragmatic new leaders still seem confident of their ability to restore industry to a sound foundation before 1980. Reforms in incentives and management are beginning to take shape, and Peking has lowered many of the barriers that had thwarted the acqusition of advanced foreign technology needed to break bottlenecks. To put this technology to work, China's schools and universities eventually will again begin graduating qualified technicians and engineers; officials, who speak of half a generation of wasted educational efforts, are busy restoring academic standards and processing applicants for undergraduate and graduate training programs.

For the next year or so, the mettle of the new leaders will continue to be tested by motivational problems, shortages of raw materials, and slipshod economic accounting that at times has left even Peking's planners in doubt about how well industry is progressing. [redacted] 25X1

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RHODESIA: THE ECONOMIC DECLINE AND WHITE MORALE

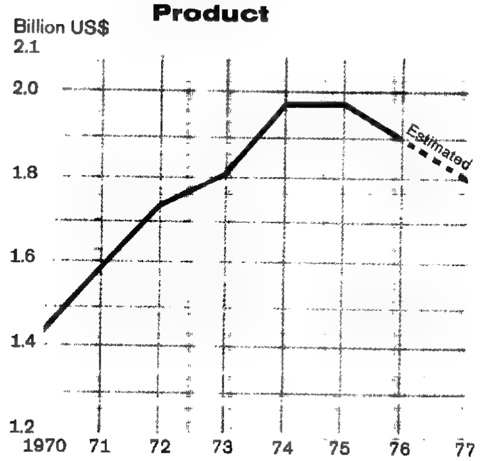
Unsettled political conditions continue to exact their toll from Rhodesia's battered economy. Three straight years of deepening recession have stifled investor and consumer confidence and have prodded increased emigration—now cutting into key skill groups such as physicians. These economic factors help spark Prime Minister Ian Smith's repeated attempts to get a political settlement, even one that would include universal black suffrage. Smith, however, with the overwhelming support of Rhodesian whites, will not put his desire to get the economy back on track ahead of the basic economic issue—preserving the white stake in the country.

The Downturn, 1975-77

The Rhodesian economy has contracted since 1974. Real GNP stagnated in 1975 and fell by 4 percent in 1976. The decline in 1976 was led by manufacturing and construction, down about 11 percent and 28 percent, respectively. The falloff in these two sectors, making up about 30 percent of GNP, far more than offset solid gains in mining. Sectors showing normal growth were public services, agriculture, transportation, and communications.

GNP is expected to drop by 5 percent or more in 1977. Manufacturing production through July was running 6 percent below last year; the largest declines have been in the output of vehicles and of metal, mineral, and wood products. Output of principal crops such as cotton and corn probably has slipped because of drought conditions early this year. Moreover, the mining sector for the first time is faltering, a reflection of weak world demand for chrome, copper, and nickel and of the repeal of the Byrd Amendment by the United States.

Trends in Real Gross National Product



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Planned building starts in 1976 stood at only half 1973 starts, and planned factory construction was down 55 percent in the first seven months of 1977, compared with the same period in 1976. A number of major firms reportedly have stopped long-range planning altogether.

Consumers also are holding back, especially on purchases of durables. Retail trade turnover in real terms was down 7 percent through first half 1977. A new $800,000 department store in Salisbury, built only 16 months ago, has announced that it will close after Christmas.

Payments Problems

A decline in exports, coupled with a falloff in foreign capital inflows, has put the balance of payments in a precarious position. Salisbury ran a rare surplus on the current account last year only through a drastic tightening of import controls. The volume of imports fell by 27 percent in 1976, even allowing for a pickup in defense-related purchases. The brunt of the decline fell on consumer goods, fuel, spare parts, and replacement machinery. The volume of exports rose by 6 percent in 1976 largely because of sales of metals. On the negative side, capital inflows plunged to a four-year low of $38 million compared with $153 million in 1975.

Rhodesia: Balance of Payments

Million US $

	1973	1974	1975	1976	1977 [1]
Trade balance	144	102	71	264	200
Services balance	−101	−133	−150	−127	−100
Net investment income and transfers	−68	−92	−98	−112	−150
Current account balance	−26	−124	−176	26	−50
Capital account balance [2]	78	94	153	38	25
Balance	52	−30	−24	65	−25

[1] Estimated.

[2] Including errors and omissions.

Rhodesia is likely to return to a current account deficit this year, with both mining and agricultural exports declining. We estimate that Rhodesian foreign exchange reserves are below the $60 million held when independence was declared in 1965, putting holdings at less than two months' worth of estimated imports. About the only course open to the government is to maintain its strong import controls and possibly to devalue periodically; the Rhodesian dollar dropped from $1.60 to $1.50 in October.

Impact on Whites

The depression has not yet struck at the basics of life for the 265,000 whites. Food and other essentials still are in adequate supply, and white employment and real wages have been maintained reasonably well. The main inconveniences have been the high price of imported goods and rationing of fuel for recreational travel.

White civilian employment slipped by only 1 percent in 1976, mostly reflecting emigration and increased military conscription. Within total white employment, the 5-percent

drop of workers in industry, construction, and retail trade was almost completely offset by the gain in public sector employment, including security forces.

The labor picture has deteriorated somewhat this year. Mine layoffs reportedly have occurred since last summer. Moreover, increased guerrilla activity has forced the government to step up military service requirements. In June 1977 the mandatory tour of duty for all eligibles under 38 years of age was raised from four to six months a year, and in September the tour of prospective college students was boosted from 18 months to two years. Businesses have been hurt by the requirement that they make up the substantial difference between military and civilian pay for the six-month leaves of absence.

Average white wages went up by 10 percent last year, compared with a 9-percent rise in the cost-of-living index. Real wages in 1977 probably have fallen slightly. The government has temporarily frozen salaries of civil servants and has put a 5-percent limit on increases in other wages. The cost of living through August was up about 7 percent. Moreover, household purchasing power has been eroded by higher income and sales taxes imposed in April to help finance increased military spending. The defense budget is now 27 percent of total government allocations, compared with 15 percent in 1973.

Impact on Blacks

The recession has been passed on to blacks in the form of decreased government spending on housing and social services and increases in unemployment. The total number of African employees fell by 7,000 or 1 percent in 1976, largely the result of a huge drop in black employment in the construction sector; this drop was only partly offset by increased employment in the public sector. Less than 1 million Africans of a total work force estimated at 2.5 million are working in the modern sector of the economy, including commercial agriculture. Few of the black unemployed have been hired to fill in for whites during military leave periods, both because the blacks lack adequate skills and because demand does not justify such replacements.

Average wages for blacks—a mere 10 percent of the average white salary even excluding domestic servants—went up by 11 percent in 1976. The wage ceilings and tax hikes will affect blacks proportionately about as much as whites.

Emigration

The fragility of white morale is reflected in rising net emigration, now averaging 1,000 whites a month. Net emigration has totaled 16,000, or 6 percent of the white population, since January 1976. Increasing numbers of doctors, dentists, and teachers, as well as older people who have lived most of their lives in the country, have been leaving. Businessmen and farmers with substantial property interests in the country have been slower to emigrate.

Laws limiting the conversion of currency have deterred a larger outflow. No more than $1,500 can be taken out in foreign exchange by any emigrant, and only $47 a day is permitted for travel expenses of businessmen. Businessmen who liquidate assets and homeowners who sell property are not permitted to take the proceeds out of the country. These laws, however, may only be a temporary deterrent to those determined to leave. Many whites are gradually converting their assets into gold, diamonds, expensive automobiles, and other easily transportable valuables.

At the same time, substantial numbers of white immigrants are entering Rhodesia—5,900 this year. Probably more than half are returning emigrants disillusioned by the contrast

between the privileged white lifestyle they had known in Rhodesia and the lifestyle they had experienced abroad. The returnees have received wide publicity in Rhodesia, undoubtedly raising second thoughts in others who have been thinking about leaving.

No Recovery in Sight

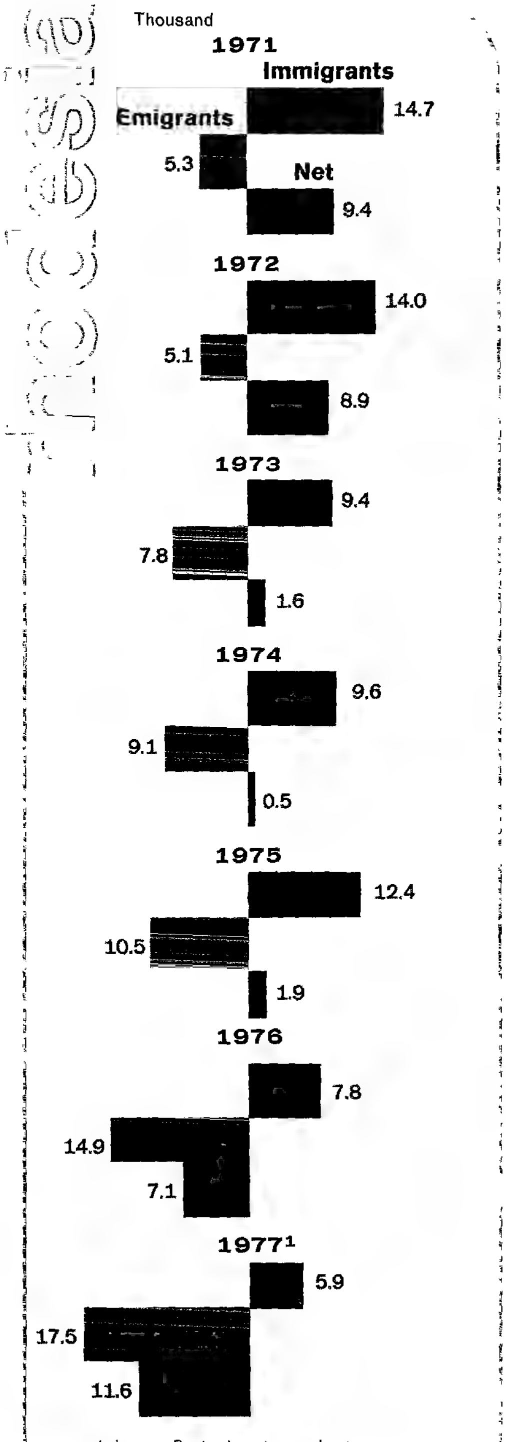
While the recession is putting pressure on Smith to move as rapidly as possible toward a political solution, the state of the economy will not prompt him to make major concessions in this effort—especially on the question of securing the white economic stake. The white business community fully shares in the general mandate given Smith in last August's election and is prepared to see the economy muddle along for as long as it takes to arrange a suitable settlement.

Moreover, a settlement would be unlikely to trigger an early economic recovery. Smith's most recent proposal for an internal settlement, for example, probably would fall short of attracting the international support needed to get the UN sanctions repealed. Even if sanctions were dropped, both domestic and foreign investors would keep their money in their pockets until the degree of stability of the black-run government and the intentions of the new economic policymakers were clear. Proposed white veto power under Smith's scheme—through more than one-third of the representatives in Parliament—supposedly would ease worries about nationalization. It would not, however, prevent a sharp swing in government priorities to black social issues such as wage equalization and to the potentially explosive question of land redistribution.

Even good agricultural crops next year and an unexpected resurgence of

SECRET

White Migrants



1. January-September at annual rate.

574669 12-77

international demand for mineral exports would be unlikely to reverse the economic tide. Most of the resulting foreign exchange probably would be allocated to military purchases. The amount left over for private industry would not produce a turnaround in the vital manufacturing and construction sectors, which will continue to suffer from low investor and consumer confidence. [redacted]

25X1

* * * * *

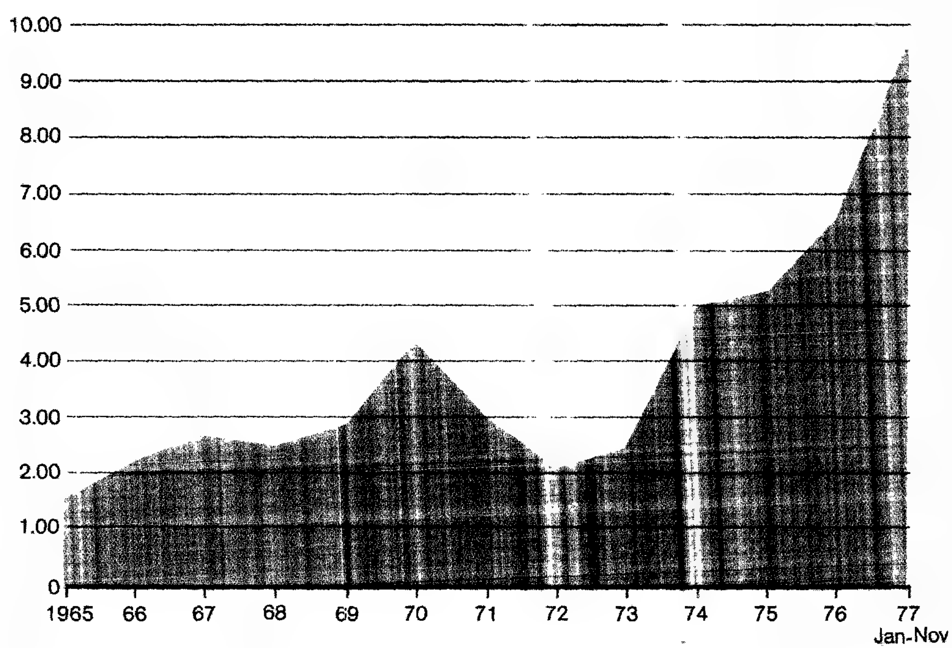
WORLD TUNGSTEN MARKET: PRICES TO EASE AS SUPPLY GROWS

Shortages and record high prices now plaguing world tungsten users will ease in 1978. New mines will boost Free World supplies next year, while demand for tungsten—a vital ingredient in aerospace applications, mining equipment, armaments, and super-hard steels—will grow slowly, reflecting lethargic economic growth. For the longer term, tungsten prices will continue volatile unless current UNCTAD negotiations lead to a market stabilization agreement. [redacted]

25X1

Annual Average Price of Tungsten Concentrates

US$ per pound of contained metal



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Tight Market

The current tightness in the tungsten market results from:

- Failure of Free World producers to meet demand. During 1974-76 non-Communist tungsten production was 8 percent below Free World consumption. US production covers less than one-half of US consumption.

- Low volume of Chinese tungsten exports in 1976 and concurrent heavy buying by Eastern Europe and the USSR, which made drawdowns in world inventories necessary.

- Lack of adequate substitutes for tungsten.

Falling prices in the early 1970s led to retrenchment of tungsten mining by US and other Free World producers. In the United States, tungsten production plummeted by nearly one-third in 1971, reflecting the depletion of high-grade ores and unwillingness to mine low-grade ores at depressed prices. Recent record high prices have thus far failed to boost production to former levels, but in 1978 new mines will come on stream in Australia, Brazil, and the United States, adding about 2,700 tons of contained metal to world supplies. This will bring Free World production into balance with Free World consumption. The higher production levels will:

- Eliminate the need of the US Government to cover demand shortfalls from strategic stockpiles.

- Lead to substantially lower prices.

- Slightly lessen Free World dependence on Chinese sales.

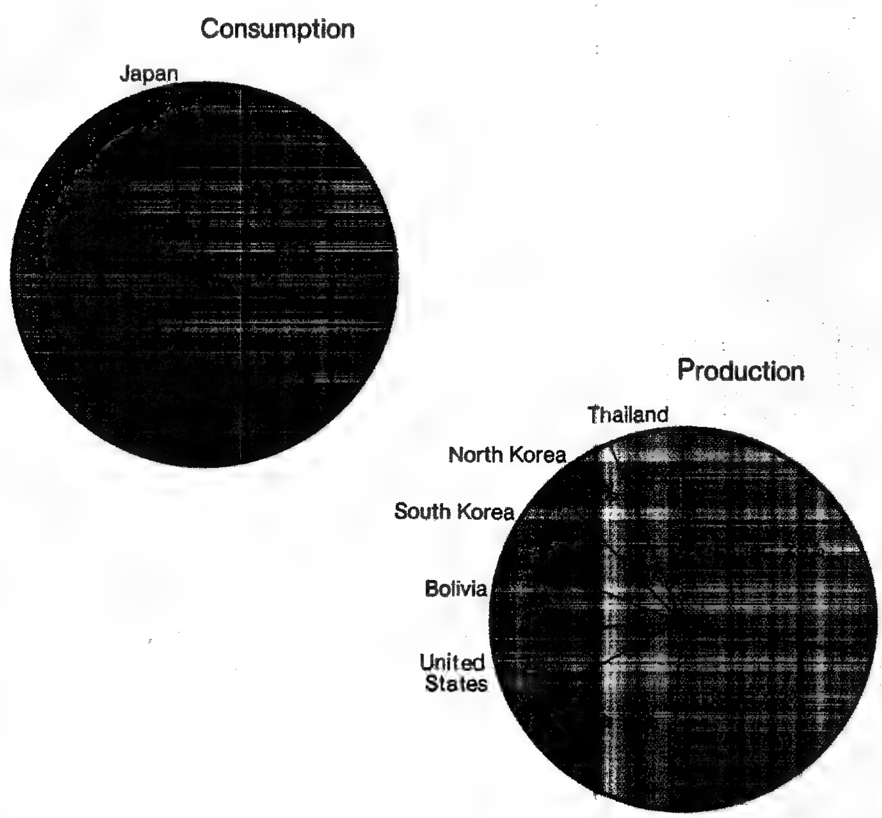
Beyond 1978, tungsten demand will parallel economic recovery. If, as we now believe, economic growth and steel production will be restrained in the early 1980s by energy problems, tungsten consumption is expected to grow at about 2 to 2½ percent annually. Free World reserves are adequate to meet this level of growth; production will be appropriately adjusted by price movements.

Communist sales and purchases will affect Free World prices and output strongly.

Communist Countries

The Communist countries account for approximately 45 percent of total world production of tungsten. The USSR is the largest producer in the world, with an estimated output in excess of 8,000 tons a year. Soviet tungsten production has grown steadily since the late 1950s,

World Tungsten Production and Consumption, 1976



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increasing from 4,600 tons of contained metal in 1957 to 8,700 tons in 1977. The long-term growth rate of 3 percent is expected to continue at least to 1985.

Moscow, nonetheless, has been unable to meet its tungsten needs from domestic production. We believe Soviet consumption has more than doubled since 1960, led by steady growth in the Soviet steel and metalworking industries and, more recently, by the expanded use of tungsten in armor-piercing munitions and in tank armor. In 1977, consumption probably will exceed 10,000 tons of contained metal, substantially more than domestic production. Annual deficits have been filled by imports from China and from the West and possibly by imports of supplies bought by East European countries. The size and timing of Soviet and East European tungsten purchases have been a major market uncertainty and a destabilizing factor.

Tungsten Production and Consumption

Tons of Contained Metal

	1974	1975	1976	1977 [1]
World production	**40,230**	**35,250**	**36,430**	**39,120**
Free World	22,190	18,450	20,230	21,820
United States	3,515	2,490	2,720	3,610
Thailand	2,450	1,640	2,050	2,000
South Korea	2,265	2,405	2,425	2,300
Bolivia	2,315	2,485	2,540	2,500
Portugal	1,590	945	1,450	1,400
Canada	2,175	1,075	1,155	1,200
Australia	1,450	1,530	1,565	1,500
Brazil	NA	1,130	1,200	1,200
Others	6,430	4,750	5,125	6,110
Communist	18,040	16,800	16,200	17,300
USSR	7,900	8,200	8,400	8,700
China	8,140	6,500	5,700	6,500
North Korea	2,000	2,100	2,100	2,100
World consumption	**42,290**	**36,080**	**37,850**	**39,370**
Free World	25,990	19,280	20,550	21,570
United States	9,980	6,350	6,800	7,140
Japan	2,950	1,680	1,680	1,760
Western Europe	11,880	10,160	10,890	11,430
Other	1,180	1,090	1,180	1,240
Communist	16,300	16,800	17,300	17,800
USSR	9,300	9,800	10,300	10,800
Other	7,000	7,000	7,000	7,000

[1] Preliminary estimate.

In recent years, China has fallen to second place among tungsten producers, with production declining from more than 10,000 tons in the late 1950s to an estimated 5,700 tons in 1976. The decline is ascribed to the moderate level of investment in tungsten mines compared with investment in higher priority industries. While production is expected to increase substantially in 1977, an imminent return to the 10,000-ton level of the past is not in the cards.

About half of current Chinese production is exported, making it the dominant factor in the world market. China demands a high price for its tungsten and withholds supplies in time of weak demand. Possessing the world's largest ore reserves—probably more than 1 million tons—the PRC will continue exporting as long as the price remains high.

Outlook for Stabilization

The paucity of information on the world tungsten market has been a major stumbling block in UNCTAD negotiations on market stabilization. To close some of the information gaps, various market studies were tabled at a meeting of experts in Geneva last week. The outcome

of this meeting was a draft report prepared for the tungsten committee, scheduled to meet in February.

Because tungsten is produced and used in relatively small quantities, financing and storage under a common fund arrangement would appear easier than in the case of other commodities now under consideration. Nonetheless, prospects for a workable tungsten agreement are not good. Price stability would be difficult to achieve because:

- Chinese sales to the Free World are sporadic and beyond the control of an UNCTAD agreement.
- Unpredictable large-scale purchases of East European countries and the USSR are expected to continue.
- Dealer speculation adds to price instability. [redacted] 25X1

* * * * *

Note

USSR: Interest in Soybean Purchase

25X1 [redacted]

During the last several weeks, Soviet interest in soybeans has been persistently rumored in the international market. An authoritative vegetable oil journal reported in late November that it believed the Soviets had already bought 1¼ million tons for delivery this marketing year. A mediocre 1977 sunflower harvest probably prompted the Soviet decision to buy beans. The beans, in addition to yielding oil, provide soybean meal, a high protein livestock feed, which will help offset the disappointing grain harvest. [redacted] 25X1

Canton Fall Fair: Moderate US Business Gains

Contracts concluded by US businessmen at the recent fall Canton Fair reached a total of $65 million to $70 million, surpassing the record $60 million to $65 million total set at the 1975 spring fair. After dropping at the spring fair, attendance—some 750 US businessmen—was back to the level of last fall, although the number of firms represented probably declined. Most US traders were content with the results of the fair. Chinese officials were more flexible on matters of labeling, packaging, and compliance with US import regulations.

US purchases totaled about $50 million. Major items included $15 million in textiles and clothing; $15 million in carpets, tea, and feathers; $8 million in light industrial products; and $6 million in minerals and metals. Except for feathers, prices were up little from the spring fair. Shortages were noted largely in foodstuffs and chemicals. The $15 million to $20 million in US sales were primarily chemicals, nonferrous metals, and textile machinery.

The level of US purchases at the fair points to continued gradual growth in imports from China. US imports in 1977–$174 million for the first 10 months–will probably increase about $10 million over last year's $201 million total. Despite Peking's apparent interest in the US market, supply and marketing problems will still limit the growth of Chinese exports to the United States in 1978. US exports to the PRC totaled $96 million through October 1977. Deliveries of US soybeans, soybean oil, and possibly cotton in November and December may push the total for the year to as much as $150 million, compared with $135 million in 1976. With Peking's policy of avoiding US purchases when alternative suppliers are available, the prospects for major increases in US exports to China in 1978 are limited. [redacted] 25X1

Model Finds UNCTAD Copper Stock Too Costly

Prospects for an UNCTAD-sponsored agreement on a copper buffer stock were set back as the result of the introduction of an econometric model into last month's meeting of copper experts in Geneva. According to a Charles River Associates model discussed at the 21-25 November meeting, the cost of such a stock would be politically and economically unacceptable. The report concluded that while "it is possible to stabilize small short-term fluctuations" in price, "long cycles of excess supply and demand similar to those characterizing the copper market from 1953 to 1976 cannot be stabilized using the rules envisioned."

This pessimistic outlook for a successful buffer stock hinges on the model's finding that a hypothetical stock would have had to sell copper in every year during the 1964-76 period in order to maintain the ceiling price on a slowly rising trend. (Two trend lines were examined, one derived from a three-year moving average of market prices, the other from a five-year average.) During this 13-year period approximately 22 million tons of copper would have had to be sold. Stocks of this size are impractical.

On the other hand, the model found that a buffer stock with a $2 billion to $2.5 billion line of credit could have prevented the price from falling more than 10 percent below the reference (trend) price from 1953 to 1976. Such a stock would have reached its maximum size at just over 2 million tons in 1963, the equivalent of nearly 50 percent of Free World output in that year. However, a stock of this size could not have prevented the price from exceeding the ceiling in 1966, 1967, and 1968.

Representatives of the major developed countries, with the exception of France, were quick to accept the model's conclusions. LDCs were reluctant to agree but failed to make a convincing rebuttal. The issue may be reopened at the third preparatory meeting of the UNCTAD committee on copper in Geneva. [redacted] 25X1

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National
Foreign
Assessment
Center

Economic Indicators Weekly Review

8 December 1977

ER EI 77-049
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FOREWORD

1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 20 October 1977. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

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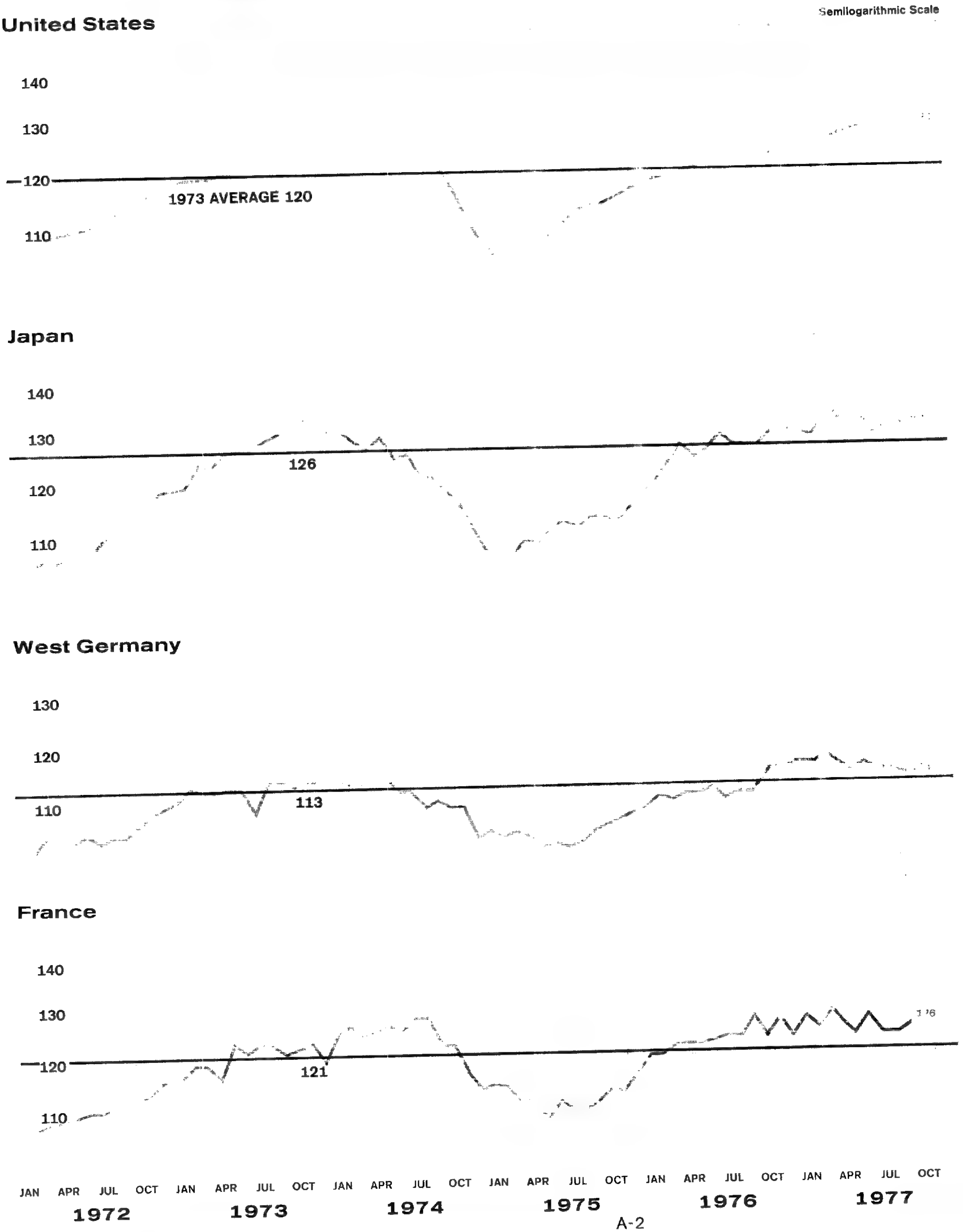
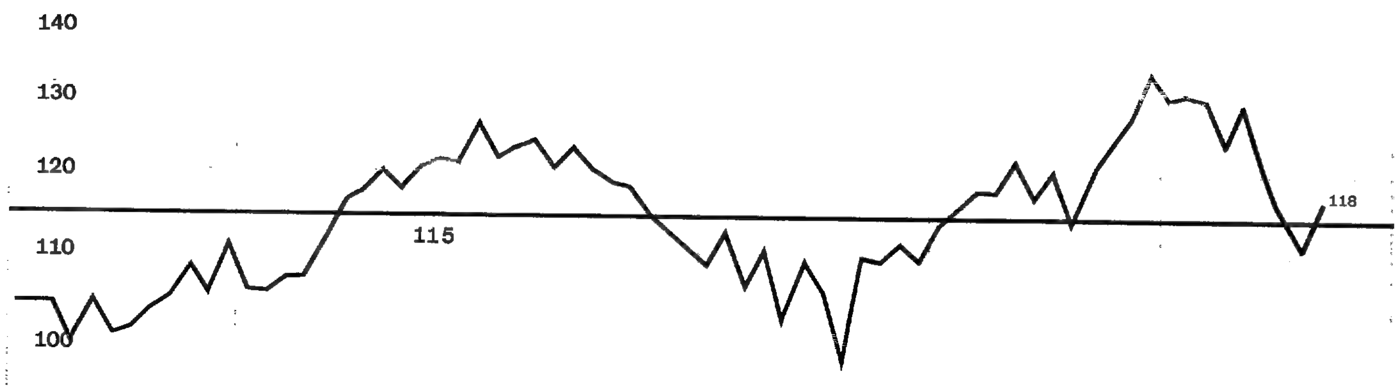
INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted



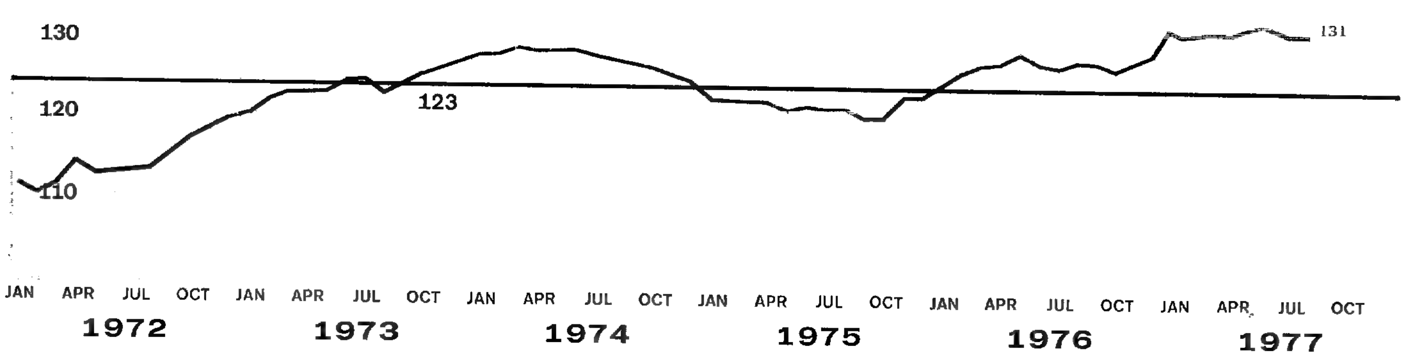
United Kingdom

Semilogarithmic Scale

Italy



Canada



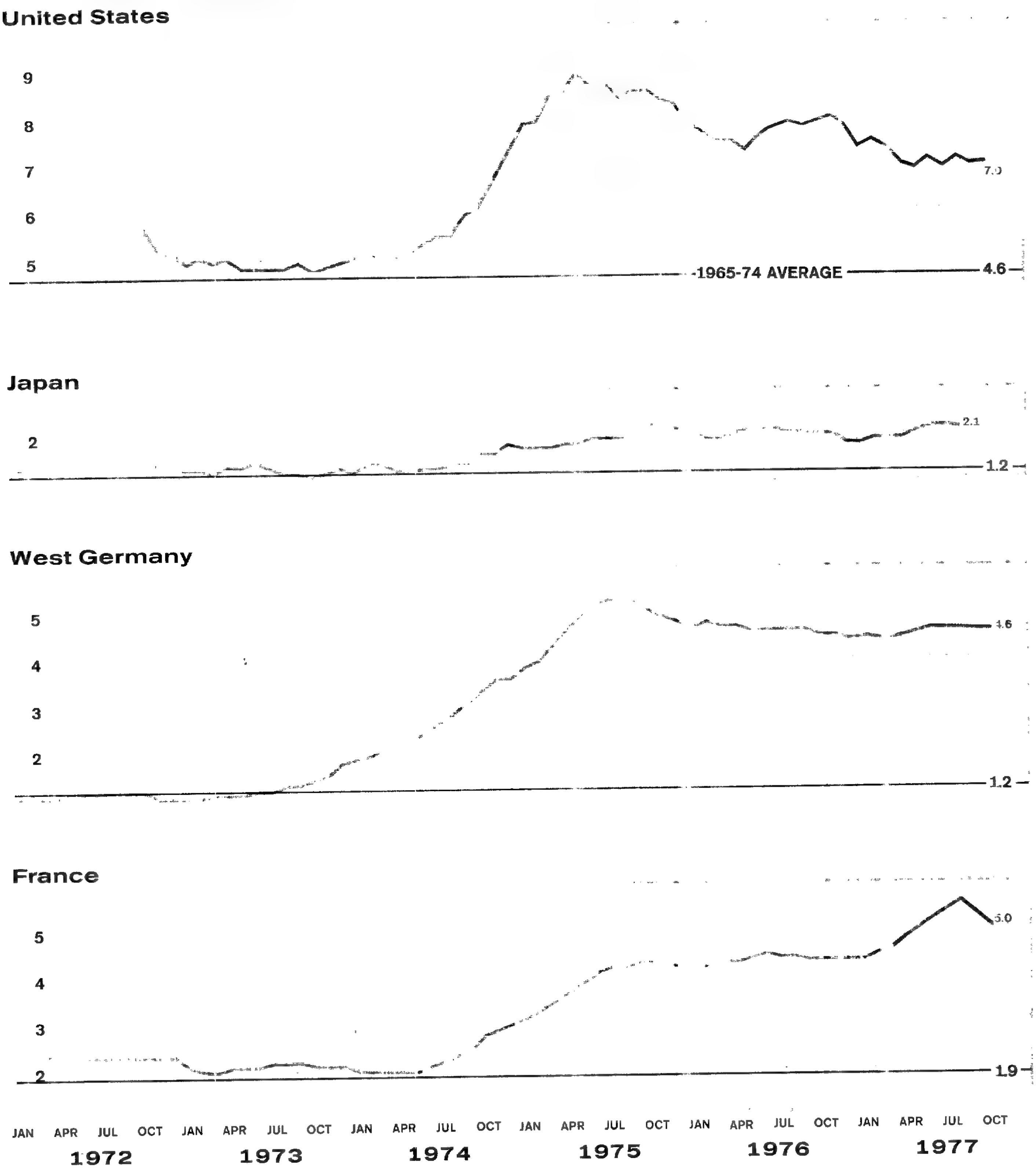
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United States	OCT 77	0.3	3.6	6.7	2.4
Japan	SEP 77	−0.1	3.7	3.3	−4.0
West Germany	SEP 77	0.9	1.8	0.9	3.4
France	SEP 77	1.6	3.3	1.6	4.2

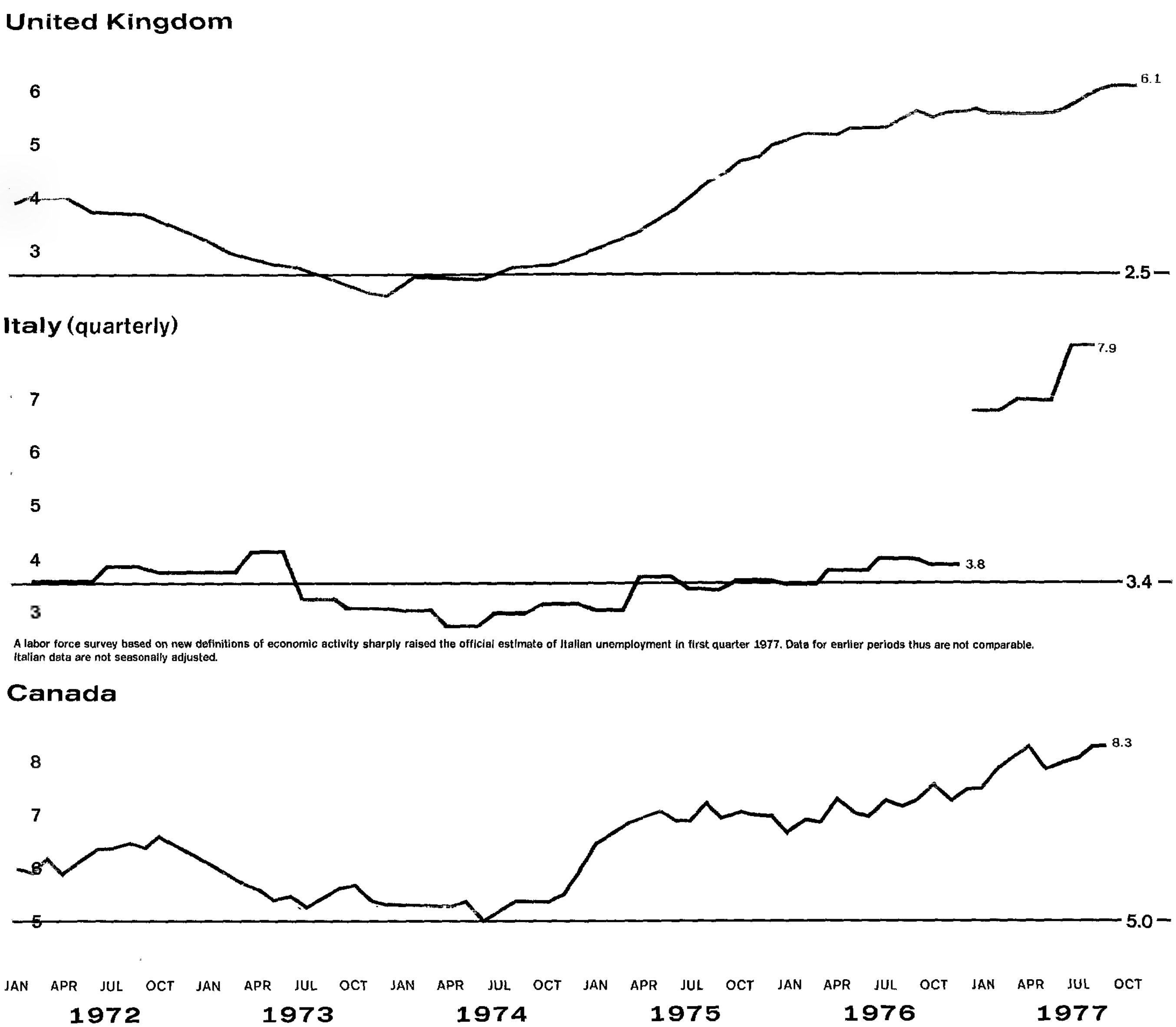
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United Kingdom	SEP 77	−0.6	0.4	−1.7	0.6
Italy	SEP 77	6.5	2.4	−2.2	−29.1
Canada	AUG 77	0	3.9	2.7	0.3

[1]Average for latest 3 months compared with average for previous 3 months.

574536 11-77

UNEMPLOYMENT PERCENT OF LABOR FORCE





A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable. Italian data are not seasonally adjusted.

THOUSANDS OF PERSONS UNEMPLOYED

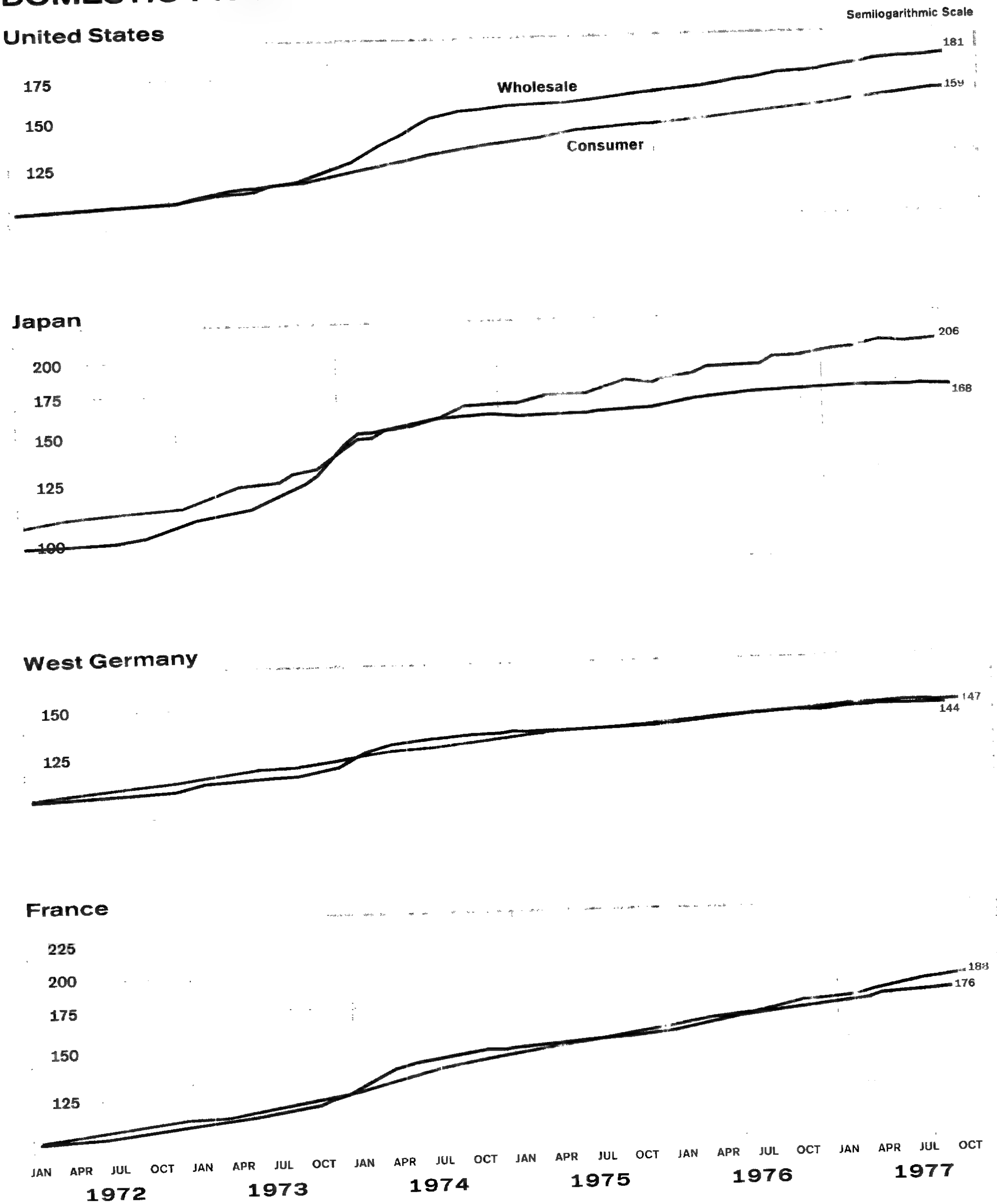
	LATEST MONTH		1 Year Earlier	3 Months Earlier
United States	OCT 77	6,872	7,564	6,744
Japan	AUG 77	1,130	1,100	1,140
West Germany	OCT 77	1,041	1,026	1,051
France	OCT 77	1,100	935	1,180

	LATEST MONTH		1 Year Earlier	3 Months Earlier
United Kingdom	NOV 77	1,433	1,317	1,414
Italy	77 III	1,692	776	1,432
Canada	SEP 77	798	753	847

NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan, Italy and Canada are roughly comparable to US rates. For 1975-77, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates.

574591 11-77

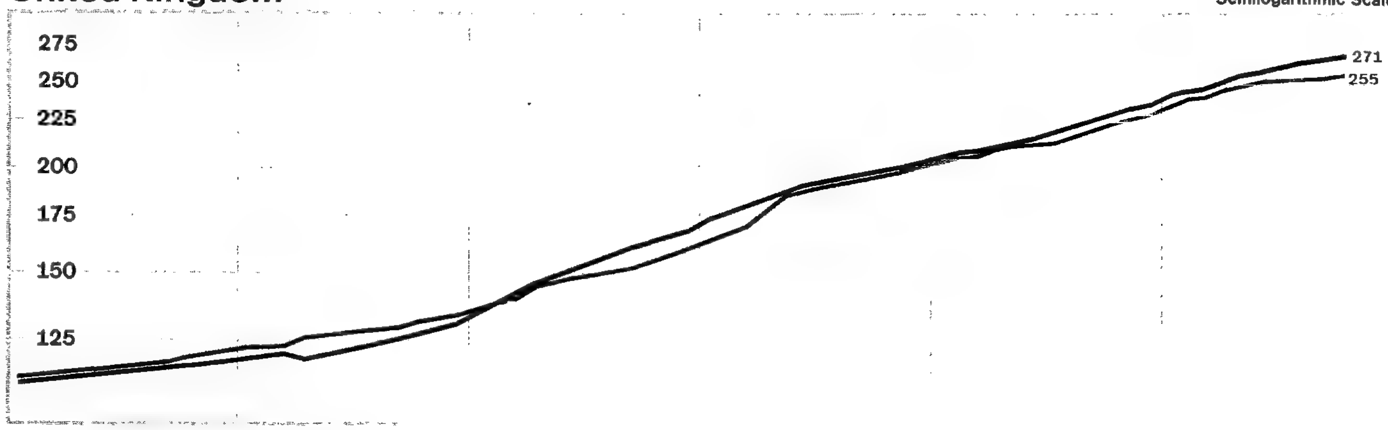
DOMESTIC PRICES[1] INDEX: 1970=100



[1]Wholesale price indexes cover industrial goods.

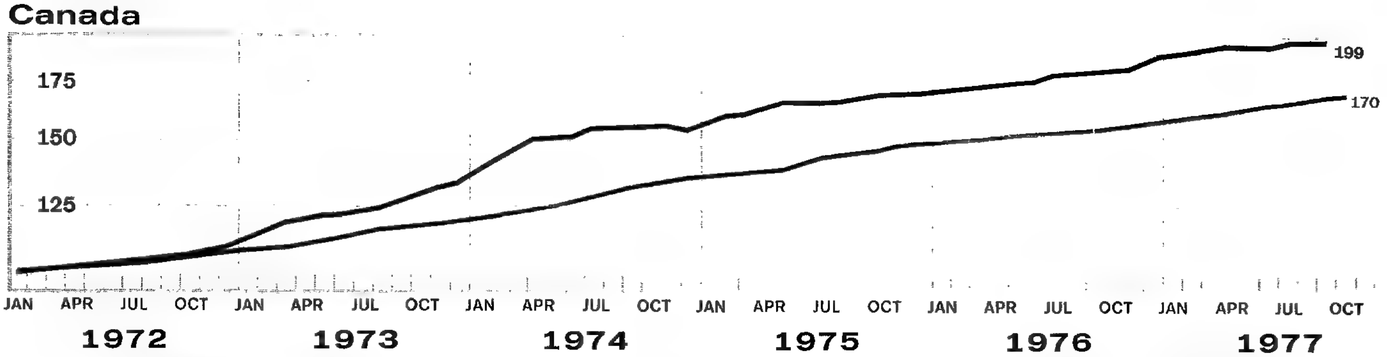
United Kingdom

Semilogarithmic Scale



Italy

Canada



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier
United States	OCT 77	0.7	8.5	6.9	6.9
	OCT 77	0.3	6.5	6.5	4.2
Japan	OCT 77	−0.3	7.4	0.1	0
	SEP 77	1.8	10.5	7.6	6.2
West Germany	SEP 77	−0.1	5.1	1.6	0.6
	OCT 77	0.1	5.4	3.8	0.3
France	SEP 77	0.6	8.2	6.1	5.4
	OCT 77	0.8	9.1	9.5	9.2

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier
United Kingdom	OCT 77	0.6	14.6	17.8	7.9
	OCT 77	0.4	13.7	14.1	6.0
Italy	AUG 77	0.5	15.6	14.3	4.6
	OCT 77	1.1	13.2	16.6	11.9
Canada	SEP 77	0.1	10.0	9.5	9.3
	OCT 77	1.0	7.5	8.8	8.1

574665 12-77

GNP [1]

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	77 III	0.9	3.2	4.6	3.8
Japan	77 II	1.9	5.6	5.6	7.6
West Germany	77 II	−0.2	6.3	2.4	−1.0
France	76 IV	0	3.9	4.9	0
United Kingdom	77 II	0.7	1.6	1.9	2.9
Italy	77 II	−1.9	2.8	2.8	−7.3
Canada	77 III	1.3	4.9	2.5	5.3

[1] Seasonally adjusted.

RETAIL SALES [1]

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Sep 77	−1.4	2.9	4.2	−0.6
Japan	Jun 77	−0.1	9.8	2.6	1.4
West Germany	Sep 77	−0.8	2.3	1.7	9.5
France	Jun 77	7.7	−0.3	1.0	−8.1
United Kingdom	Oct 77	−0.2	0.9	−1.9	5.4
Italy	Apr 77	−0.4	2.8	1.0	−3.1
Canada	Aug 77	4.7	4.5	1.3	−0.5

[1] Seasonally adjusted.

[2] Average for latest 3 months compared with average for previous 3 months.

FIXED INVESTMENT [1]

Non-residential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	77 III	1.0	2.1	7.8	4.2
Japan	77 II	0.5	1.1	4.5	2.0
West Germany	77 II	−1.6	0.4	3.4	−6.4
France	75 IV	8.8	4.2	2.9	40.1
United Kingdom	77 II	11.2	1.7	8.0	53.2
Italy	77 II	−7.8	2.5	10.3	−27.6
Canada	77 III	−1.1	5.8	3.2	−4.2

[1] Seasonally adjusted.

WAGES IN MANUFACTURING [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Sep 77	0.4	7.5	6.6	6.5
Japan	Aug 77	2.2	17.0	9.8	8.7
West Germany	77 II	1.7	9.5	7.5	7.2
France	77 I	2.3	14.1	13.9	9.5
United Kingdom	Aug 77	0	15.3	3.0	3.5
Italy	Aug 77	3.7	21.0	23.8	23.7
Canada	Aug 77	0.2	11.2	9.9	9.0

[1] Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.

[2] Average for latest 3 months compared with that for previous 3 months.

MONEY MARKET RATES

	Representative rates	Latest Date	Percent Rate of Interest	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Commerical paper	Nov 30	6.53	4.75	5.80	6.55
Japan	Call money	Dec 2	4.63	7.00	4.88	4.63
West Germany	Interbank loans (3 months)	Nov 30	4.16	4.70	4.03	4.06
France	Call money	Dec 2	9.38	10.56	8.25	8.75
United Kingdom	Sterling interbank loans (3 months)	Dec 2	6.95	14.79	6.56	4.84
Canada	Finance paper	Dec 2	7.26	8.55	7.50	7.38
Eurodollars	Three-month deposits	Dec 2	6.98	5.18	6.26	7.14

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Sep 77	0.6	9.4	3.0	−0.8
Japan	Jul 77	−1.8	10.4	10.4	−4.4
West Germany	Sep 77	−1.5	11.0	6.2	3.6
France	Sep 77	−1.4	11.2	8.3	12.1
United Kingdom	Oct 77	1.9	11.1	23.2	26.1
Italy	Jul 77	1.7	11.3	13.3	18.9
Canada	Aug 77	3.0	9.9	1.5	17.1

EXPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Sep 77	0.6	9.4	3.0	−0.8
Japan	Jul 77	−1.0	6.3	3.1	−5.3
West Germany	Sep 77	−1.2	4.2	−1.2	−2.3
France	Sep 77	−0.9	9.4	8.5	10.1
United Kingdom	Oct 77	0.4	15.9	14.3	13.6
Italy	Jul 77	1.4	16.9	19.4	16.4
Canada	Aug 77	3.9	10.2	10.2	27.0

IMPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Sep 77	0	13.2	8.1	7.2
Japan	Jul 77	−1.5	10.5	−2.3	7.0
West Germany	Sep 77	−2.3	4.0	−1.3	−5.5
France	Sep 77	−1.0	10.1	7.4	0.6
United Kingdom	Oct 77	−0.4	18.7	8.3	−6.3
Italy	Jul 77	−1.6	20.7	15.3	10.4
Canada	Aug 77	3.2	9.3	15.5	31.3

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Billion US $	Billion US $: Jun 1970	1 Year Earlier	3 Months Earlier
United States	Oct 77	19.0	14.5	19.0	18.9
Japan	Oct 77	19.6	4.1	16.6	17.6
West Germany	Sep 77	34.5	8.8	35.0	34.3
France	Sep 77	10.0	4.4	9.4	10.2
United Kingdom	Oct 77	20.2	2.8	4.8	13.4
Italy	Sep 77	10.5	4.7	5.1	9.7
Canada	Aug 77	4.8	4.3	5.6	5.2

CURRENT ACCOUNT BALANCE [1]

	Latest Period	Million US $	Cumulative (Million US $) 1977	1976	Change
United States [2]	77 II	−4,605	−8,763	1,070	−9,833
Japan	Sep 77	1,142	6,473	1,815	4,658
West Germany	Oct 77	1,133	1,252	1,549	−297
France	77 II	−438	−2,101	−2,052	−50
United Kingdom	77 II	−474	−1,490	−1,277	−213
Italy	77 II	161	−768	−2,859	2,091
Canada	77 II	−1,407	−2,956	−3,088	132

[1] Converted to US dollars at the current market rates of exchange.
[2] Seasonally adjusted.

BASIC BALANCE [1]
Current and Long-Term-Capital Transactions

	Latest Period	Million US $	Cumulative (Million US $) 1977	1976	Change
United States		No longer published [2]			
Japan	Sep 77	611	4,398	1,732	2,666
West Germany	Sep 77	−1,341	−4,642	1,655	−6,297
France	77 I	−1,354	−1,354	−2,015	660
United Kingdom	77 II	1,409	2,075	−1,119	3,195
Italy	77 II	97	−395	−2,963	2,568
Canada	77 II	−217	−791	1,701	−2,493

[1] Converted to US dollars at the current market rates of exchange.
[2] As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

EXCHANGE RATES
Spot Rate
As of 25 Nov 77

	US $ Per Unit	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	18 Nov 77
Japan (yen)	0.0042	9.57	22.56	11.27	1.41
West Germany (Deutsche mark)	0.4511	27.39	9.49	4.41	1.11
France (franc)	0.2064	−6.35	3.30	1.20	0.13
United Kingdom (pound sterling)	1.8175	−26.15	8.31	4.35	−0.36
Italy (lira)	0.0011	−35.54	−4.92	0.62	0.18
Canada (dollar)	0.9024	−9.55	−10.99	−3.04	0.09

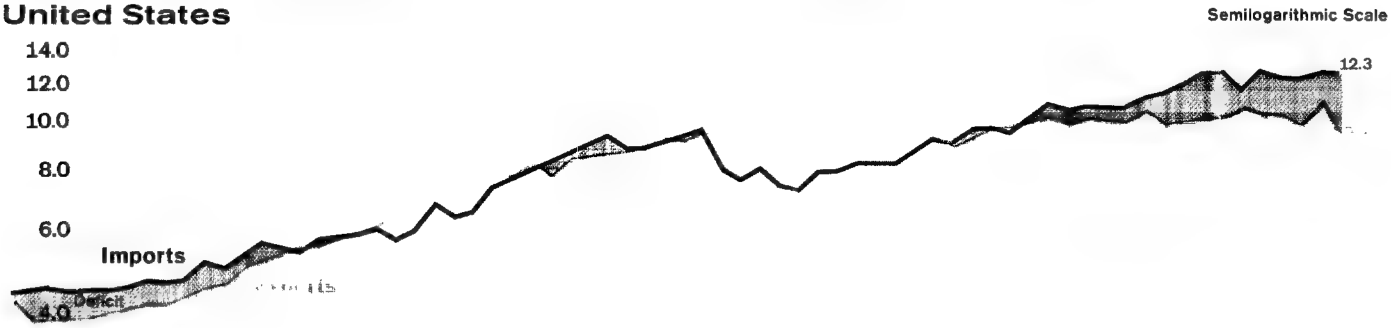
TRADE-WEIGHTED EXCHANGE RATES [1]
As of 25 Nov 77

	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	18 Nov 77
United States	3.89	−0.94	−2.04	−0.53
Japan	15.28	24.33	10.59	1.20
West Germany	29.12	6.91	2.67	0.58
France	−9.18	−0.61	−1.44	−0.56
United Kingdom	−27.59	7.07	3.22	−0.90
Italy	−39.83	−9.17	−1.86	−0.44
Canada	−8.50	−12.42	−3.99	−0.04

[1] Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

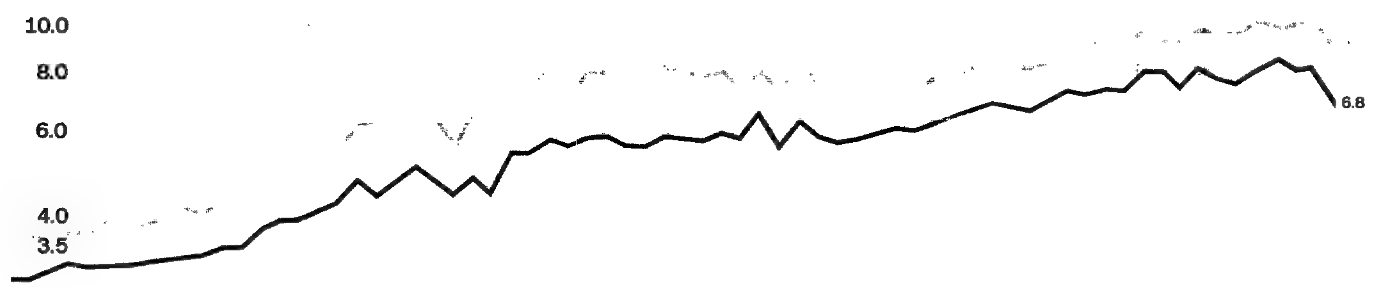
FOREIGN TRADE **BILLION US $, f.o.b., seasonally adjusted**

United States

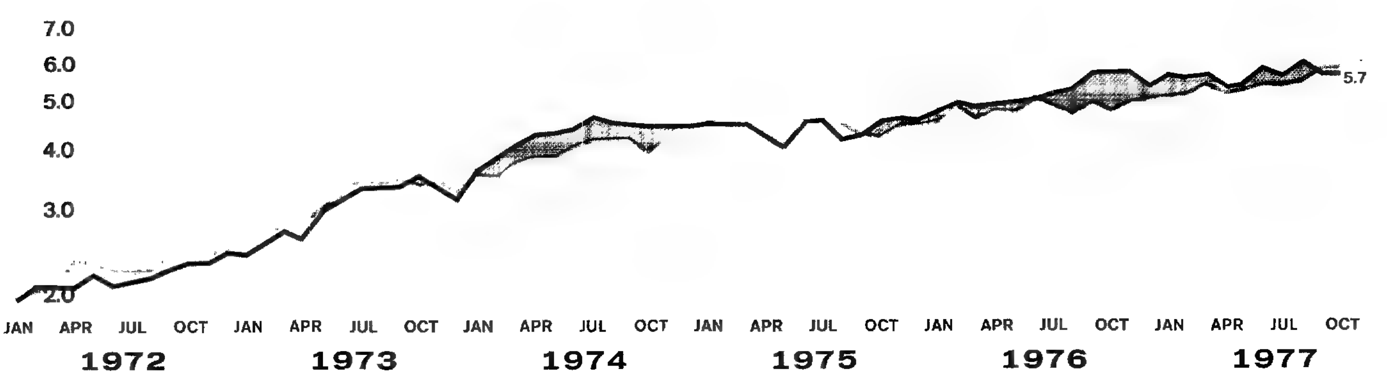


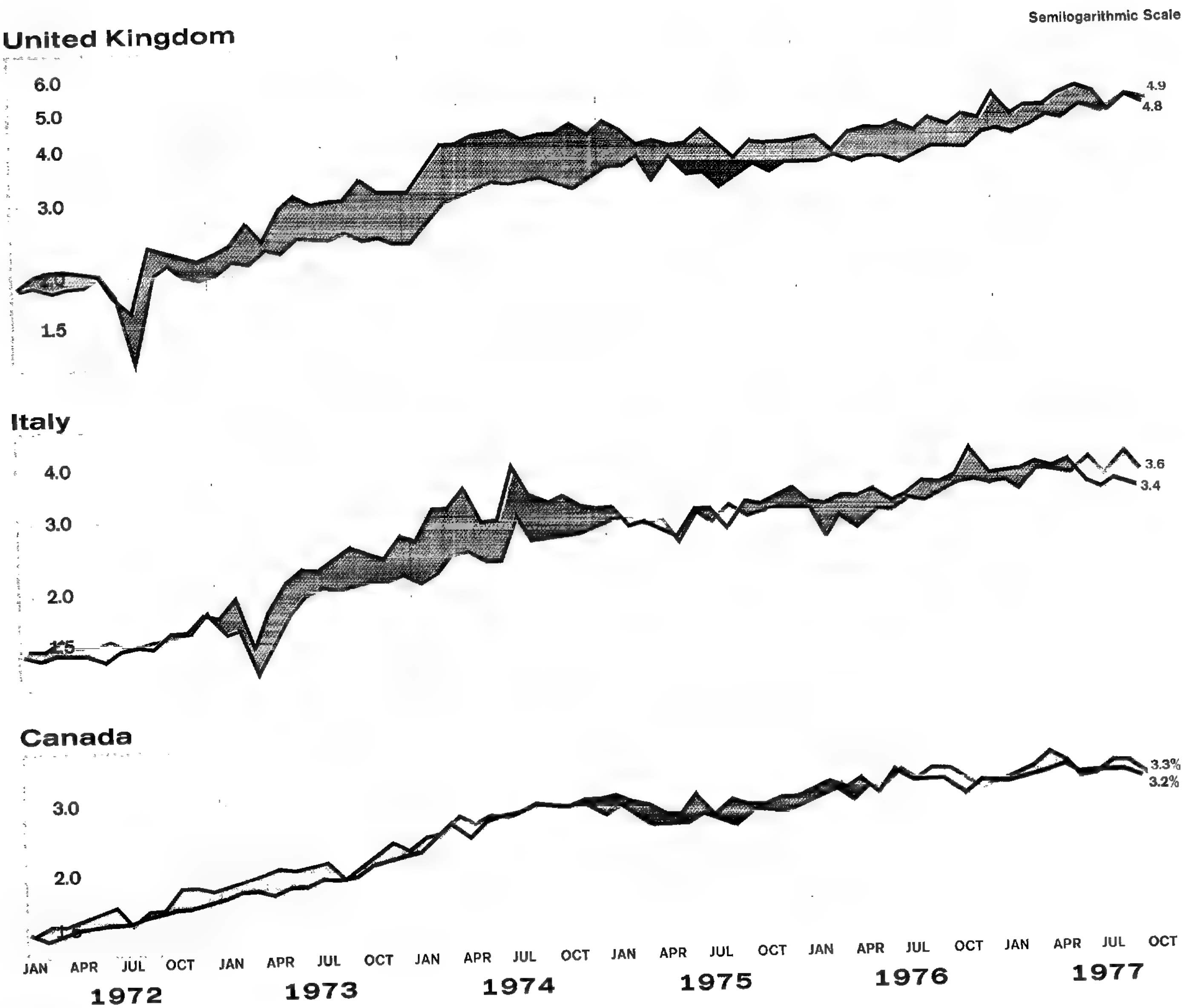
Japan

West Germany



France

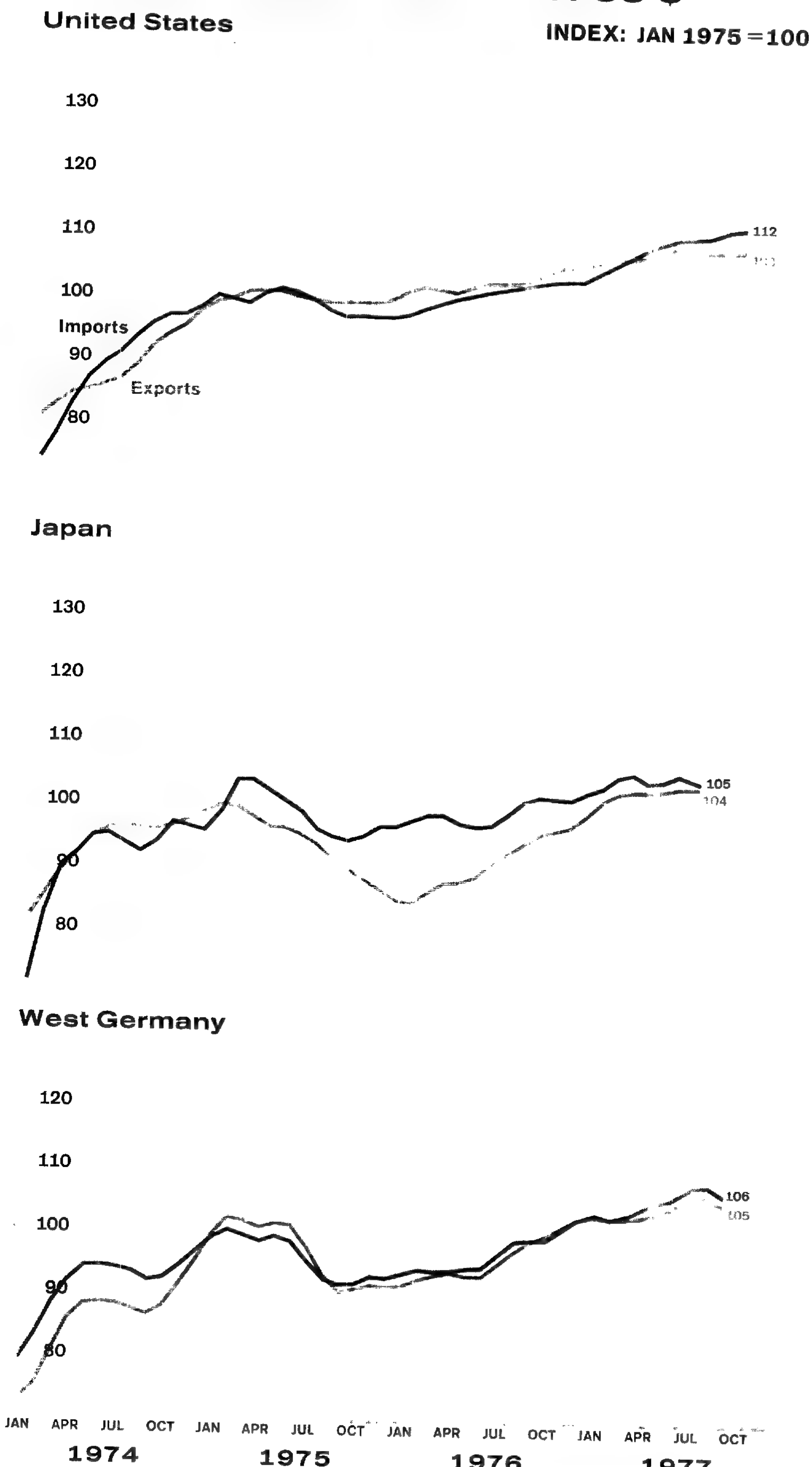




	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1977	1976	CHANGE
United States	OCT 77	9,190	99,774	94,870	5.2%
		12,288	122,170	98,852	23.6%
	Balance	−3,098	−22,396	-3,982	18,414
Japan	SEP 77	6,439	58,430	48,305	21.0%
		5,183	45,838	40,860	12.2%
	Balance	1,256	12,592	7,445	5,147
West Germany	OCT 77	8,763	94,989	83,081	14.3%
		6,798	77,617	68,099	14.0%
	Balance	1,965	17,372	14,982	2,390
France	OCT 77	5,768	53,474	46,978	13.8%
		5,742	55,573	50,154	10.8%
	Balance	26	−2,098	−3,176	1,078
United Kingdom	OCT 77	4,894	46,020	36,432	26.3%
		4,839	48,927	41,814	17.0%
	Balance	55	−2,907	-5,383	2,475
Italy	SEP 77	3,608	32,833	26,553	23.7%
		3,357	32,430	29,079	11.5%
	Balance	251	403	−2,526	2,929
Canada	SEP 77	3,270	31,191	28,891	8.0%
		3,215	29,858	28,520	4.7%
	Balance	55	1,333	370	963

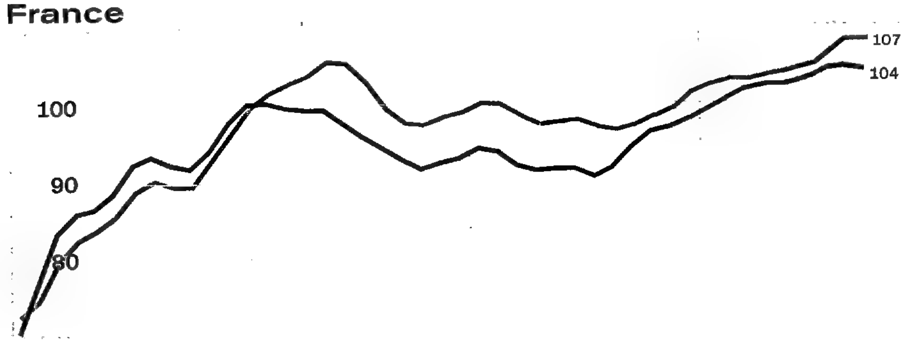
574666 12-77

FOREIGN TRADE PRICES IN US $[1]

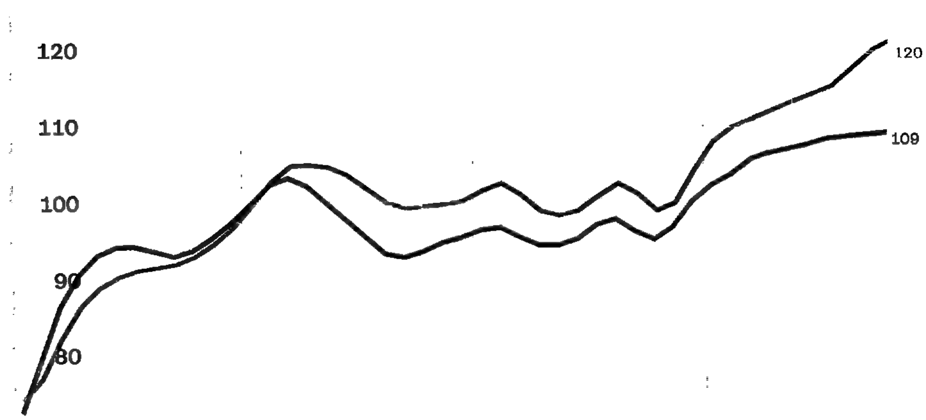


[1]Export and import plots are based on five month weighted moving averages.

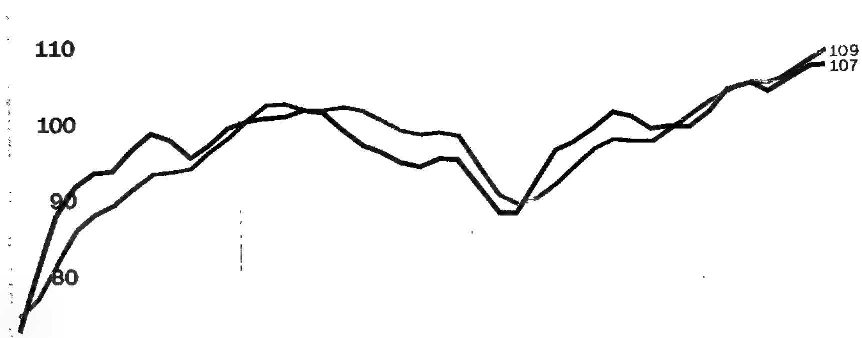
France



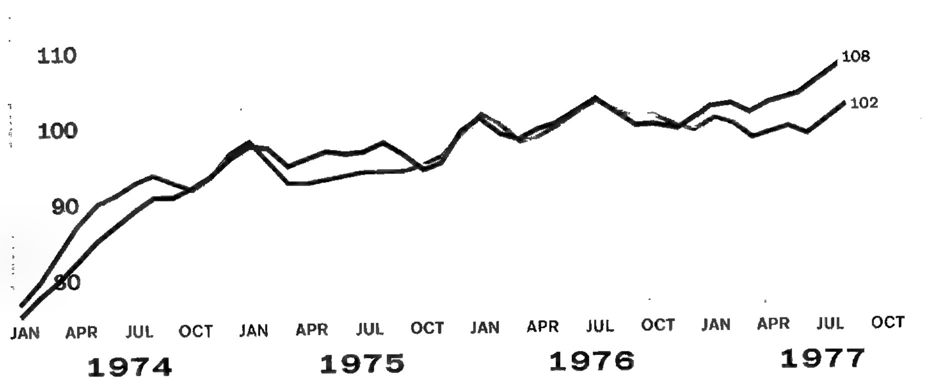
United Kingdom



Italy



Canada



574538 11-77

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SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
Brazil	76 II	0.1	11.0	10.7	0.4
India	Jun 77	0.2	5.1	7.1	−0.3
South Korea	Aug 77	4.7	22.7	13.6	49.3
Mexico	Jul 77	1.0	6.0	4.7	21.6
Nigeria	76 IV	0.2	11.3	9.0	0.7
Taiwan	Sep 77	7.2	15.0	12.3	−2.0

[1] Seasonally adjusted.

[2] Average for latest 3 months compared with average for previous 3 months.

MONEY SUPPLY [1]

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	May 77	1.5	36.3	41.7
India	Jun 77	0.3	12.0	16.9
Iran	Jul 77	−0.2	28.4	26.6
South Korea	Aug 77	2.2	31.6	39.9
Mexico	Aug 77	0.7	18.7	30.1
Nigeria	Apr 77	−2.3	36.9	47.5
Taiwan	Jul 77	1.4	24.4	27.1
Thailand	Jun 77	−1.8	13.1	12.0

[1] Seasonally adjusted.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Oct 77	2.7	27.2	42.1
India	Jun 77	0.6	8.3	10.0
Iran	Aug 77	−0.3	12.3	30.7
South Korea	Sep 77	0.3	14.5	9.2
Mexico	Sep 77	1.8	15.0	32.2
Nigera	Apr 77	2.9	15.2	16.0
Taiwan	Sep 77	−1.9	10.9	10.4
Thailand	Aug 77	1.1	8.7	9.9

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Sep 77	1.6	27.1	34.4
India	Sep 77	0	9.2	4.8
Iran	Aug 77	−0.6	10.3	17.7
South Korea	Sep 77	0.7	16.3	9.4
Mexico	Sep 77	0.5	16.5	44.6
Taiwan	Sep 77	−0.5	8.9	3.8
Thailand	Jul 77	1.0	10.1	7.1

EXPORT PRICES

US $

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Jul 77	−12.4	16.3	28.4
India	Feb 77	8.0	10.4	8.9
Iran	Aug 77	0	35.0	18.7
South Korea	77 II	1.4	8.7	8.5
Nigeria	May 76	−0.1	27.3	12.3
Taiwan	Aug 77	−0.3	11.8	5.3
Thailand	Dec 76	2.0	13.3	13.1

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Million US $	Million US $: Jun 1970	1 Year Earlier	3 Months Earlier
Brazil	May 77	5,806	1,013	3,401	5,878
India	Oct 77	4,886	1,006	2,778	4,395
Iran	Sep 77	11,445	208	9,642	11,025
South Korea	Aug 77	3,765	602	2,263	3,519
Mexico	Mar 76	1,501	695	1,479	1,533
Nigeria	Aug 77	4,610	148	5,842	4,740
Taiwan	Aug 77	1,416	531	1,586	1,331
Thailand	Sep 77	1,925	978	1,989	2,017

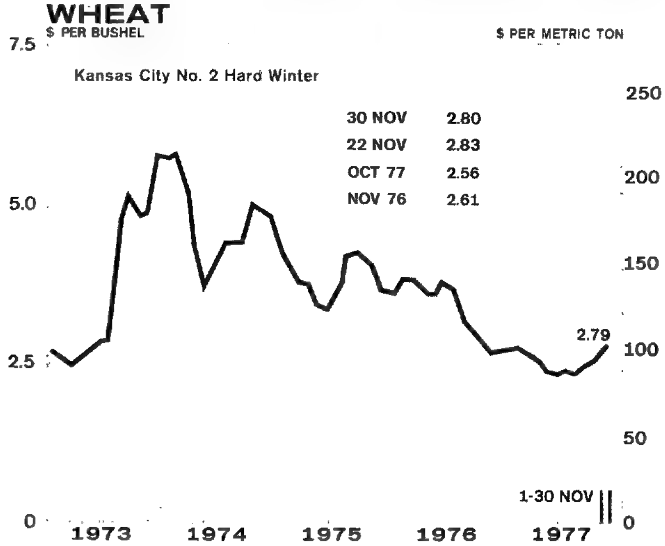
FOREIGN TRADE, f.o.b.

	Latest Period		Latest 3 Months Percent Change from: 3 Months Earlier [1]	1 Year	Cumulative (Million US $): Earlier 1977	1976	Change
Brazil	Jul 77	Exports	110.6	27.2	7,225	5,312	36.0%
	Jul 77	Imports	22.8	−2.0	6,873	6,989	−1.7%
	Jul 77	Balance			352	−1,677	2,029
India	Jun 77	Exports	−46.9	6.3	2,707	2,485	8.9%
	Jun 77	Imports	−55.4	−5.8	2,094	2,117	−1.1%
	Jun 77	Balance			612	368	244
Iran	Aug 77	Exports	−42.5	−5.7	15,621	14,785	5.7%
	Aug 77	Imports	−18.2	−4.8	8,402	8,351	0.6%
	Aug 77	Balance			7,219	6,434	785
South Korea	Aug 77	Exports	43.9	20.3	6,217	4,838	28.5%
	Aug 77	Imports	16.4	18.8	6,265	5,121	22.3%
	Aug 77	Balance			−47	−283	235
Mexico	Aug 77	Exports	−46.9	30.5	2,743	2,125	29.1%
	Aug 77	Imports	101.8	−16.5	3,260	4,070	−19.9%
	Aug 77	Balance			−517	−1,945	1,428
Nigeria	Jul 77	Exports	18.3	22.8	2,853	2,259	26.3%
	Dec 76	Imports	86.7	8.4	2,531	1,990	27.2%
	Dec 76	Balance			1,502	1,102	399
Taiwan	Sep 77	Exports	28.7	9.0	6,637	5,902	12.5%
	Sep 77	Imports	−13.9	6.1	5,722	5,111	11.9%
	Sep 77	Balance			915	790	125
Thailand	May 77	Exports	39.8	21.1	1,506	1,210	24.5%
	May 77	Imports	62.6	21.7	1,624	1,322	22.8%
	May 77	Balance			−117	−112	−5

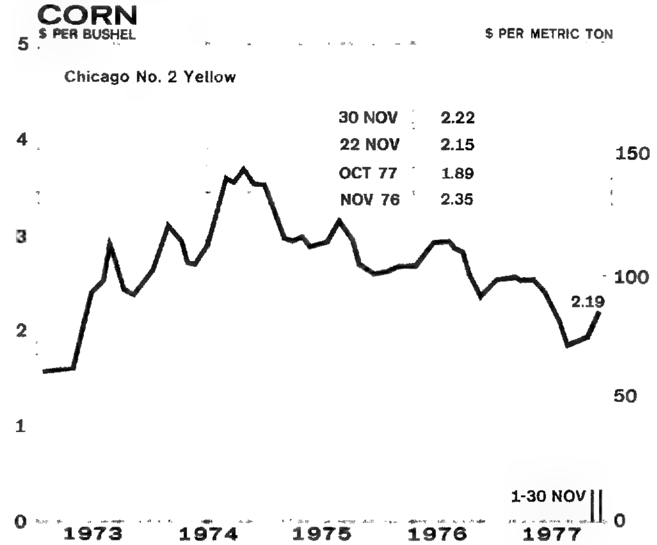
[1] At annual rates.

AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

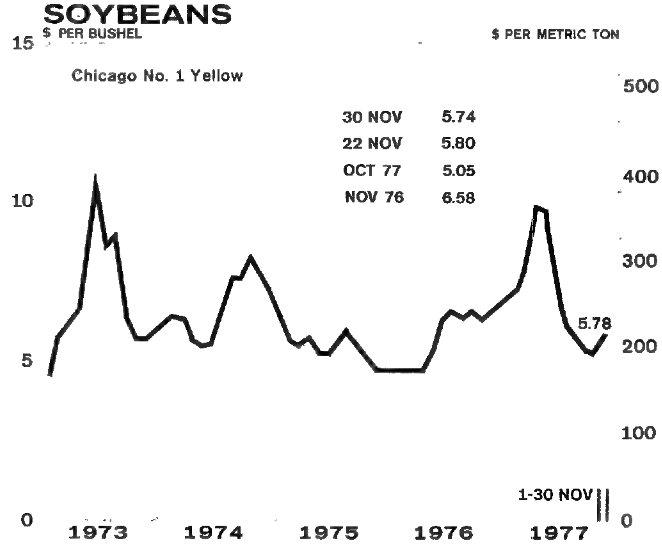
WHEAT



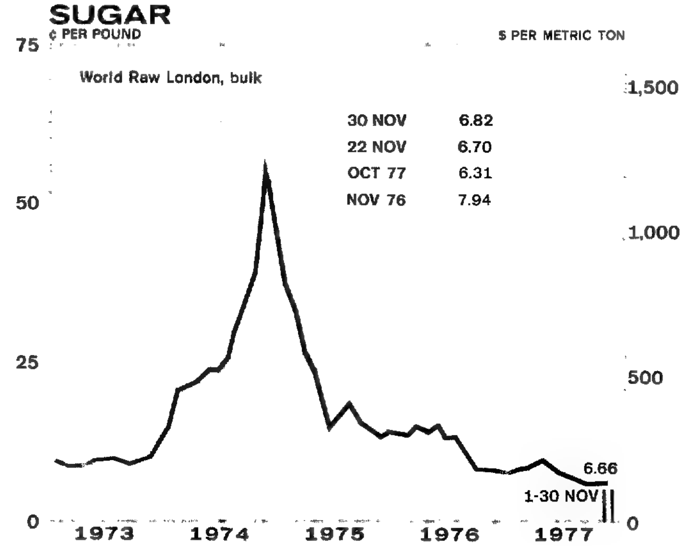
CORN



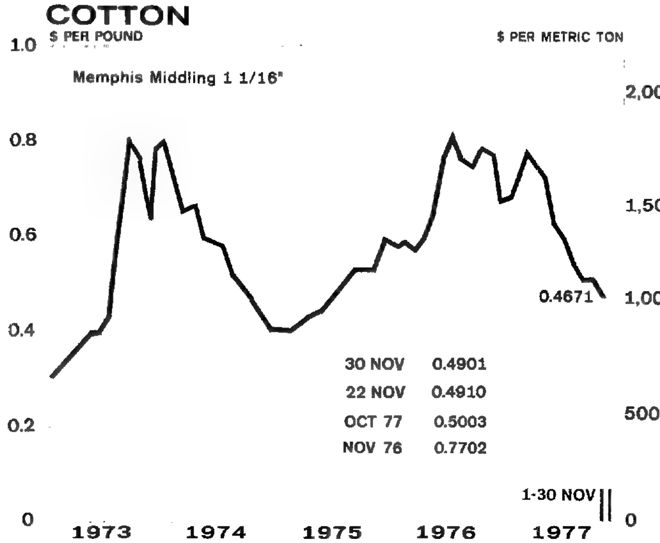
SOYBEANS



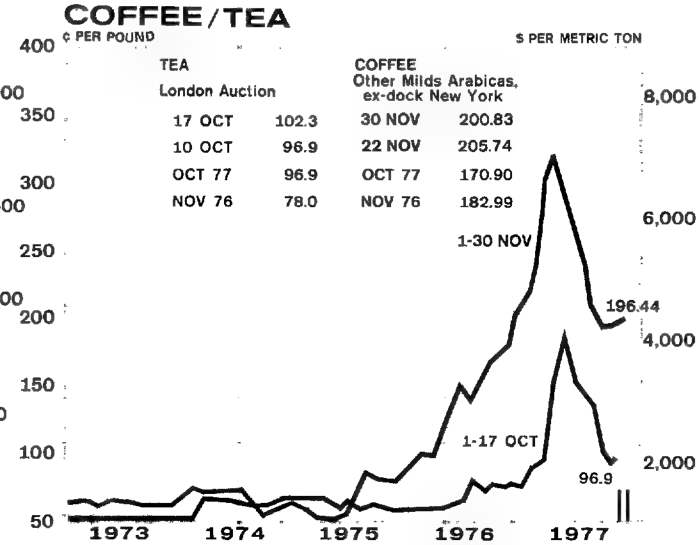
SUGAR

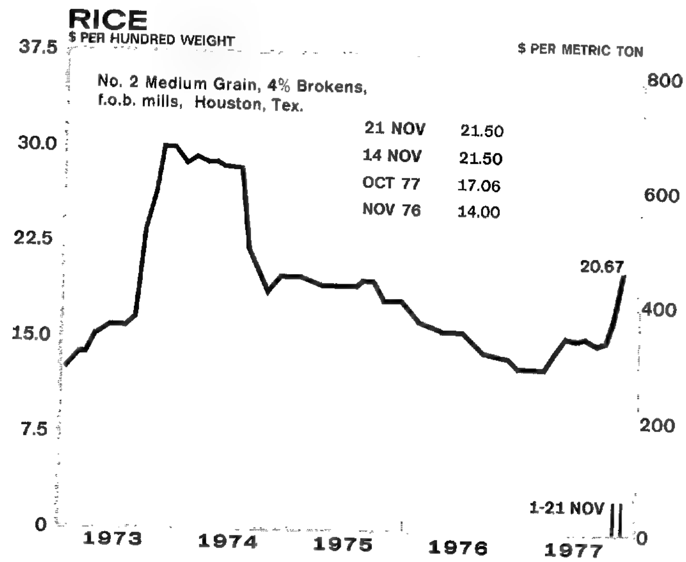


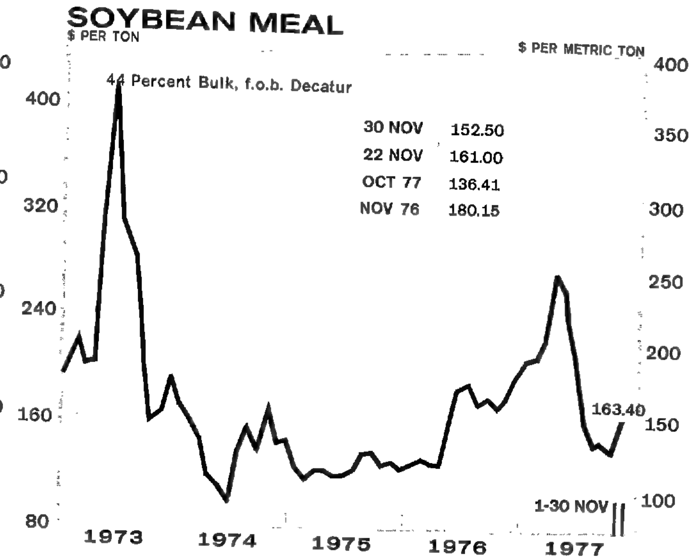
COTTON

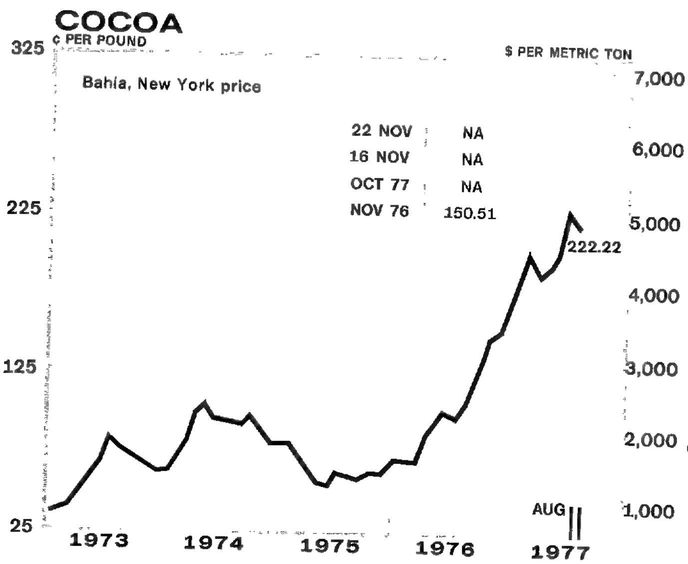


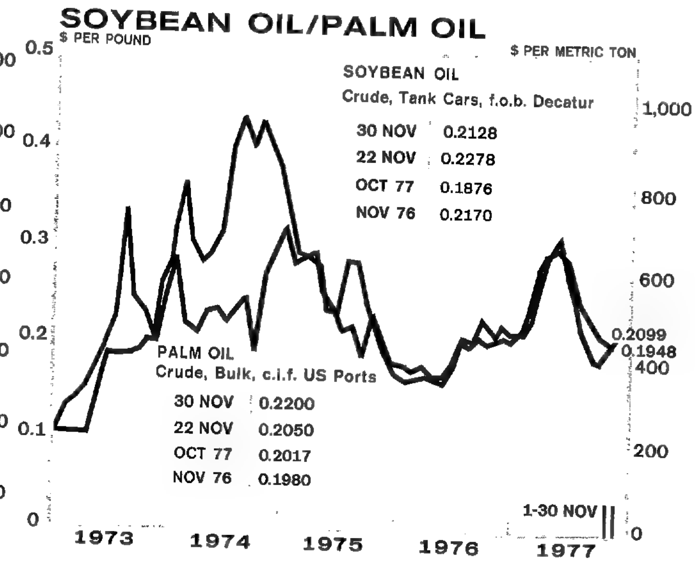
COFFEE/TEA

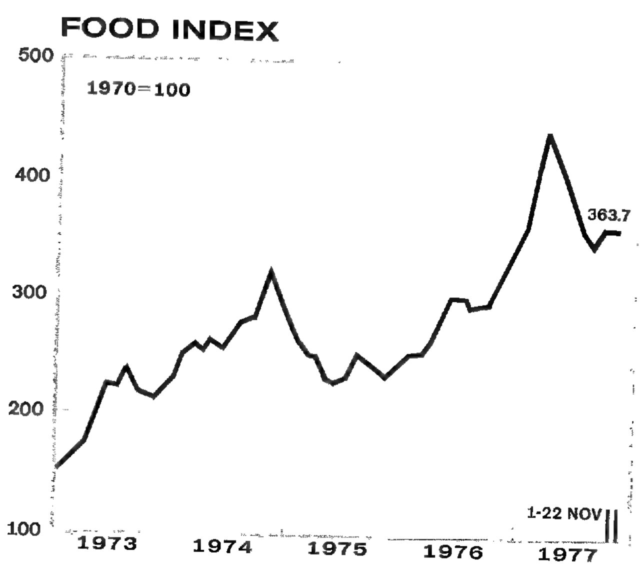










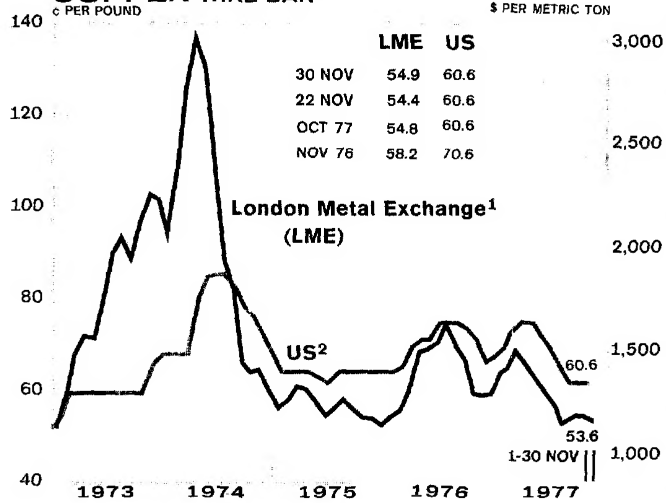


NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

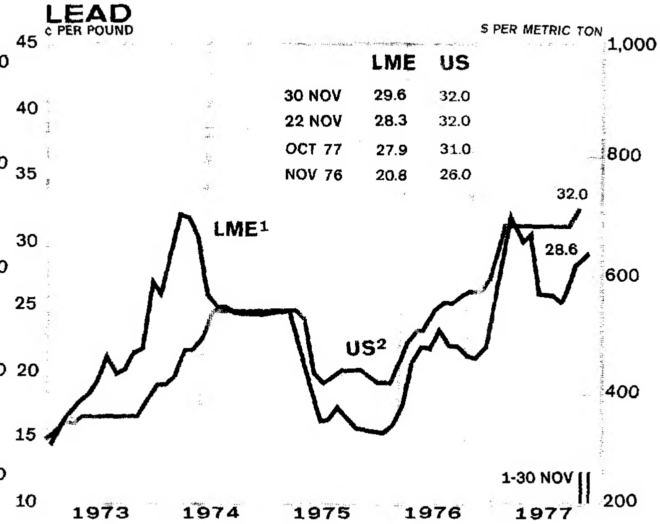
574667 12-77

INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE

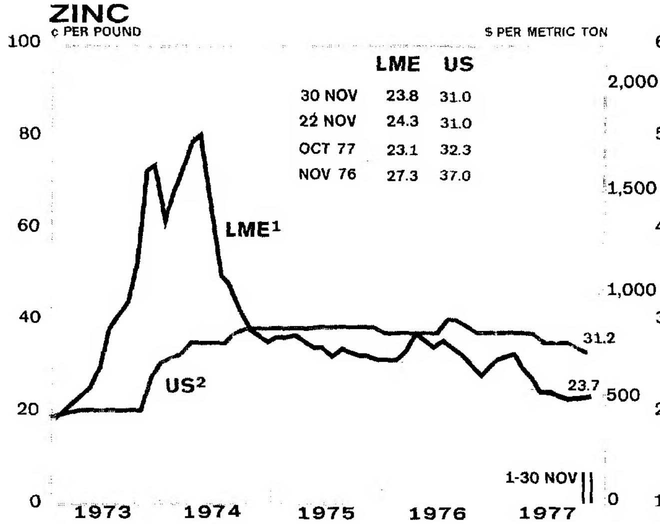
COPPER WIRE BAR



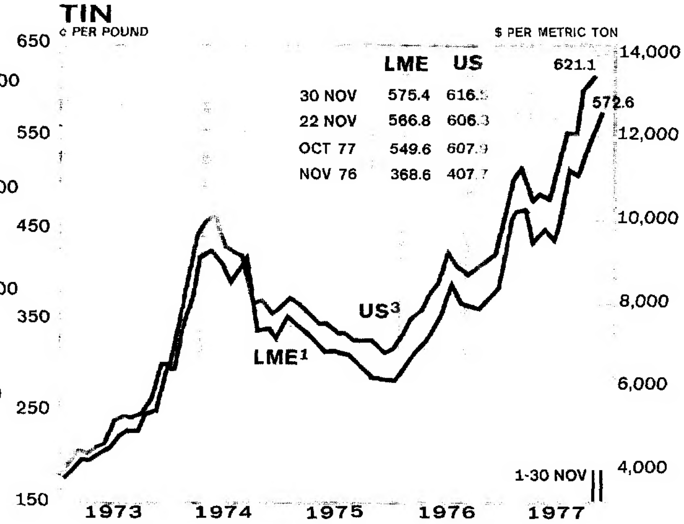
LEAD



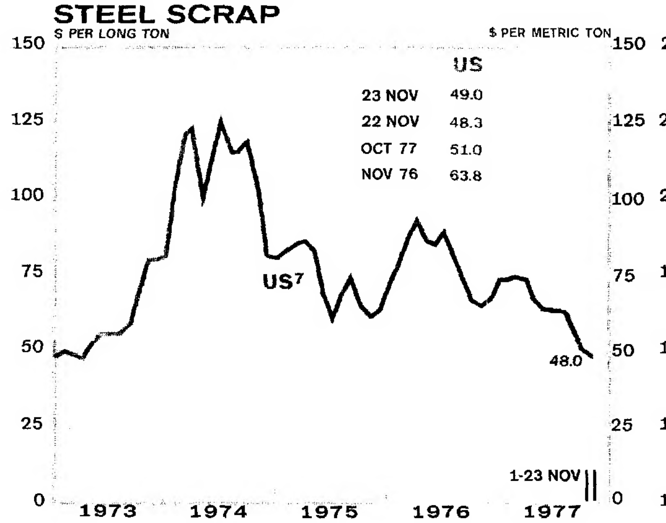
ZINC



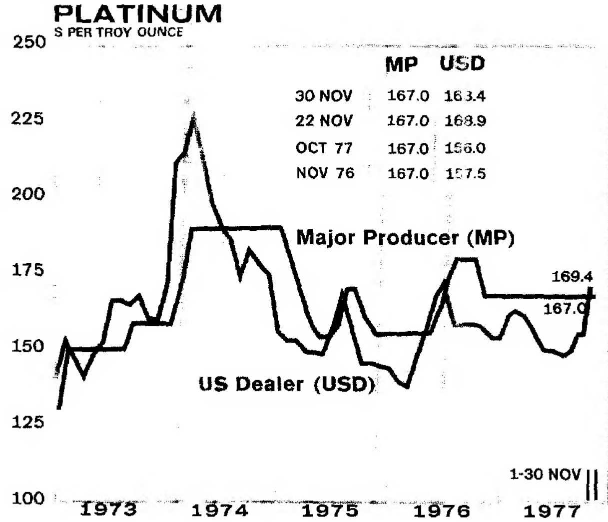
TIN



STEEL SCRAP



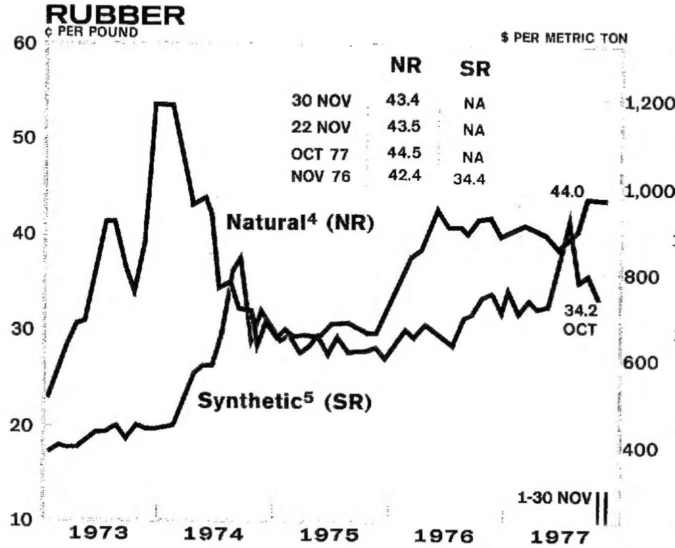
PLATINUM



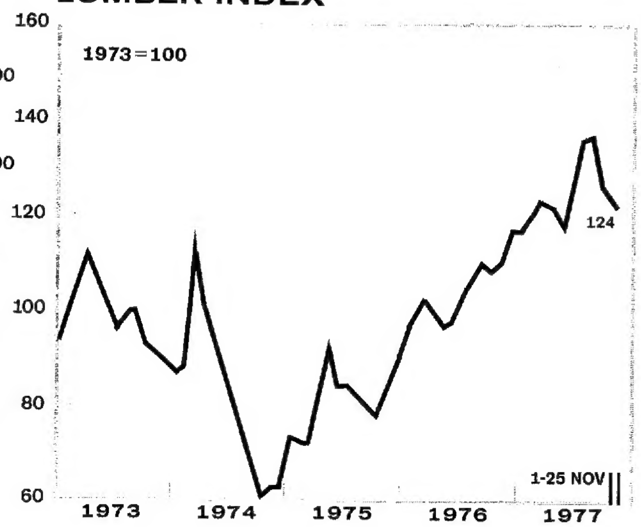
SELECTED MATERIALS

			CURRENT	MAY 77	NOV 76	NOV 75
ALUMINUM	Major US Producer	¢ per pound	53.00	51.00	48.00	41.00
US STEEL	Composite	$ per long ton	359.36	339.27	327.00	306.72
IRON ORE	Non-Bessemer Old Range	$ per long ton	21.43	21.43	20.51	18.75
CHROME ORE	Russian, Metallurgical Grade	$ per metric ton	150.00	150.00	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	$ per long ton	58.50	58.50	42.00	44.50
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	41.00	43.00	43.00	53.50
NICKEL	Composite US Producer	$ per pound	2.10	2.40	2.41	2.20
MANGANESE ORE	48 Percent Mn	$ per long ton	72.24	72.00	72.00	67.20
TUNGSTEN ORE	Contained Metal	$ per metric ton	22,131.15	23,106.00	18,082.00	10,799.00
MERCURY	NY	$ per 76 pound flask	134.00	141.90	134.50	125.26
SILVER	LME Cash	¢ per troy ounce	473.86	469.85	436.90	431.93
GOLD	London Afternoon Fixing Price	$ per troy ounce	157.72	146.60	130.44	142.42

RUBBER



LUMBER INDEX[6]



INDUSTRIAL MATERIALS INDEX

[1]Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

[2]Producers' price, covers most primary metals sold in the US.

[3]As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

[4]Quoted on New York market.

[5]S-type styrene, US export price.

[6]This index is compiled by using the average of 13 types of lumber whose prices are regarded as "bell wethers" of US lumber construction costs.

[7]Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

574668 12-77

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